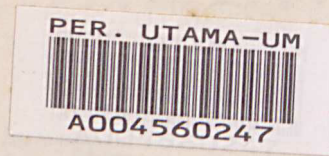


VC. 

Ameaz Puzi B. A. Wahab.

Unit Mikrofilem
Universiti Malaya
Kuala Lumpur.



A STUDY OF THE FEDERAL INDUSTRIAL
DEVELOPMENT AUTHORITY OR (FIDA)
AND INDUSTRIAL DEVELOPMENT

IN MALAYSIA

by

Ganaran @ Ganasan s/o Appudurai

120228

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Outline of Study

Chapter I - FIDA does not work in isolation and it is not a fully autonomous body. This chapter therefore gives an account of all the agencies involved in industrial development and how FIDA "should be" co-ordinating the functions of these various agencies and functions of FIDA as provided for in the Act.

Chapter II - This chapter gives an account of the organization of FIDA to find out how it functions and what are the defects in the existing machinery of FIDA. It also shows an attempt has been made to give the findings and recommendations to the Development Administrative Unit or DAU on the "Restructuring of FIDA" which has not been accepted by the Ministry and FIDA as yet.

Chapter III - In this chapter an attempt has been made to examine the interaction of FIDA with the public and private sectors. This chapter also suggests what roles the government should undertake itself within a free industrial economy like Malaysia and gives the findings of a survey conducted by the author to find out the problems of industrialists both foreign and local and the type of contact between these firms and FIDA.

Chapter IV - This chapter deals with the Capital Investment Committee or CIC; why the government set up this body, what are the powers given to it to carry out its objectives and what are the advantages of the CIC when compared to FIDA.

Chapter V - If industrialization in Malaysia is to be successful then the facilitating factors should be present. This chapter therefore gives the prerequisites for any industrial development to take place and the facilitating factors for industrial development which can take the form of basic requirements for industry outside to industry.

INTRODUCTION

Objective of Study

The major objective of my study is to analyse the Federal Industrial Development Authority or FIDA as a statutory body and to find out how this organisation interacts with the public and private sectors, and what are its shortcomings in the industrial development of Malaysia.

But the conditions in the country after May 1969, has necessitated my study to include the Capital Investment Committee or CIC, which has taken over some of the functions of FIDA.

Outline of Study

Chapter I - FIDA does not work in isolation and it is not a fully autonomous body. This chapter therefore gives an account of all the agencies involved in industrial development and how FIDA "should be" co-ordinating the functions of these various agencies and functions of FIDA as provided for in the Act.

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Chapter III - In this chapter an attempt has been made to examine the interaction of FIDA with the public and private sectors. This chapter also suggests what roles the government should burden itself within a pre-industrial economy like Malaysia and gives the findings of a survey conducted by the writer to find out the problems of industrialists both foreign and local and the type of contact between these firms and FIDA.

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Chapter V - If industrialization in Malaysia is to be successful then the facilitating factors should be present. This chapter therefore gives the prerequisites for any industrial development to take place and the facilitating factors for industrial development which can take the form of basic requirements for industry and aids to industry.

Chapter VI - Industrialization is a major economic policy of the government of the day and since there are many defects within the organisation, FIDA, what are my recommendations for removing the obstacles for greater industrial development. This chapter gives an account of my recommendations for improving the industrial development machinery, namely the establishment of a Department of Industries (to separate commerce and trade and industry), the setting up of an Industrial Development Board (IDB) and the establishment of a Co-ordinating Committee and what should be the various functions of these bodies.

Conclusion - Here I have mentioned the main points of my study and the recommendations I have suggested and in addition suggested certain areas for deeper studies.

Methodology

There is not much literature on FIDA and industrial development in this country. My study was based mainly from the publications of FIDA local newspapers, interviews with few economists and industrialists, interviews with officials within FIDA and finally a 'mini' survey conducted to find the contact between FIDA and the private sector.

Limitations

I faced many problems in writing this graduation exercise. In FIDA there is a lot of secrecy and majority of the officers refused to say anything about the problems they face as administrators and anything regarding the internal functioning of the agency was considered "top secret". Even the Director of FIDA is very non-committal as to many of the questions I asked him his reply was just "no comment".

Secondly, even to get a report from DAU was difficult that I had to go by informal procedures just to have a look at the report within the office.

Thirdly, many firms refused to say anything about the nature of contact with FIDA and at the same time officials in FIDA also refused to say how they kept in contact with these firms.

Fourthly, the imposition of Emergency made many departments and organisations including FIDA to be more secretive in their operations.

Finally, because of fear and commitment most of the officers prefer to be quoted as "one official says" rather than by their names.

Acknowledgements

I am very grateful for the guidance and suggestions given to me by my supervisor, Professor Hans C. Blaise. I would also like to record my appreciation to Enche Elyas Omar of the DAU, Mr S. Abhishegam of the Dunlop Industries Malaysia, the Director of FIDA and the officials within FIDA.

CHAPTER I

GENERAL OUTLINE

Industrial development cannot be achieved in isolation. That is, it is dependent upon fruitful collaboration between many organisations. This has become increasingly evident as the problem is both vast and urgent and calls for deliberate acceleration of the present rate of industrialization. The main purpose of this chapter is to find out the functions of FIDA, what are other institutions involved in industrial development and what are FIDA's responsibilities in relation to these organisations.

Functions of the Authority

In order to encourage co-operation between the government and industrial concerns, a body called the Federal Industrial Development Authority or FIDA was formed by legislation. The FIDA (Incorporation) Act 1965 states that, it shall be the function of the Authority to promote and co-ordinate industrial development and to advise the Minister on the formulation of policies in respect thereof; and for the purpose, the Authority may:

- 1) undertake or cause to be undertaken economic feasibility studies of industrial possibilities;
- 2) undertake industrial promotion work (whether in the Federation or abroad);
- 3) facilitate exchange of information and co-ordination among institutions engaged in or connected with industrial development;
- 4) recommend policy on industrial site development and, where it deems fit, undertake the development of such sites;
- 5) evaluate application for pioneer status;
- 6) report annually to the Minister on the progress and problems of industrialization in/Federation and make /the recommendations on the manner in which such problems may be dealt with; and
- 7) generally do all such matters and things as may be incidental to or consequential upon the exercise of its¹ powers on the discharge of its functions under the Act.

¹Federal Industrial Development Authority (Incorporation) Act, 1965, Act of Malaysia No. 13 of 1965.

With the setting up of FIDA the Minister of Commerce and Industry stated that the government has 3 bodies concerned with industrialization:²

- 1) The Industrial Development Division of the Ministry, IDD;
- 2) The Tariff Advisory Board, TAB; and
- 3) The Federal Industrial Development Authority, FIDA.

The Minister then defined the respective roles of these bodies as follows:

- 1) FIDA - to promote the setting up of industries;
- 2) IDD - to approve their establishment;
- 3) TAB - to decide on the degree of protection the industries required while at the same time being a "watchdog" for the interest of the consumers.

But, when one goes deeper to study the industrial machinery and how it functions in this country, one obviously finds that there are multiplicity of other institutions that promote industrial development either directly or indirectly.

The other institutions are as follows:

- 4) MIDF - Malaysian Industrial Development Finance. This is the major source of medium and long term credit for industrial development.
- 5) MARA - Majlis Amanah Ra'ayat, - to deal with the problems of indigenous entrepreneurs whereby special attention will continue to be given to their needs by government.
- 6) MIEL - Malayan Industrial Estates Ltd - to help small industries to acquire needed buildings and other facilities for their operations.
- 7) NISIR - National Institute of Scientific and Industrial Research - to provide all industrial enterprises with the necessary scientific and technical support, but also to study the possibilities for and the problems associated with industrial processing of materials available from local sources.
- 8) SIM - Standards Institute of Malaysia - to ensure that the specifications of domestically provided and imported manufactured articles meet the particular requirements.

²Straits Times, 10th May 1967.

FIDA's Responsibilities

In its relations with the institutions mentioned above, FIDA has the following responsibilities;

- 1) to ensure co-ordination of activities of all organisations concerned with industrial promotion;
- 2) it will supplement the activities of these organisations;
- 3) will arrange for the promotion of promising industrial projects through intensive domestic and foreign publicity either in its own or in conjunction with other agencies concerned; and
- 4) will advise the government on the administration of all industrial incentive programmes and industrial site development.³

In the words of Bryce, "one of the most fundamental and far-reaching decisions that has to be made by government seeking industrial development is whether the government itself should be the sponsor, builder, owner and operator of new industrial projects as a matter of policy or where these functions can be left largely or entirely to private business."⁴ But in Malaysia the government's policy is that, "the government will continue to leave the operational role in the industrial sector largely in the hands of private enterprise and will offer co-ordinated and purposeful assistance to private industrialists, but attainment of the objectives for industrial development will depend substantially upon the response of local and foreign entrepreneurs to the incentives and assistance offered."⁵

The major factor that impedes industrial development in Malaysia is that, there is the proliferation of statutory institutions and this brings about deficiencies in administrative mechanism established to accelerate industrial development. The deficiencies are namely, limited co-ordination between departments, inter-institutional rivalry, absence of clear demarcation of functions and responsibilities and the like. To strengthen my argument, I would like to quote Wheelwright who states that, "even at the present level there is serious lack of co-ordination in executing policy, for the intending applicant must apply to one set of officials for pioneer industry status; to another set for tariff concessions; to yet a third for industrial estate administered by a state government and if he wants industrial finance he has to go to another completely different outfit."⁶

³First Malaysia Plan, 1966-70, Government of Malaysia, 1965, p.136.

⁴Bryce, Murray D., Industrial Development, McGraw Hill, Book Company, Inc., New York, 1960, p.36.

⁵First Malaysia Plan, op.cit., p.130

⁶Wheelwright, E.L., Industrialization in Malaysia, Melbourne University Press, 1965, p.56.

There is no clear-cut solution to this colossal problem, but one that has been suggested by many economists is that, Malaysia should have ONE unified body under one roof so that there can be greater co-ordination and collaboration of the several institutions established by the government or an amalgamation of all bodies connected with industrialization and in particular FIDA, so that it can discharge its functions efficiently as "FIDA shares with the EPU (Economic Planning Unit) the principal responsibility for planning the nation's overall approach to industrial development."⁷

In conclusion it can be said that there exists some definite relationship between FIDA and other institutions mentioned and this is evidenced from the former Director's remarks that, "FIDA's work cannot be carried on in a vacuum we must work hand in hand with all the existing government departments, semi-government authorities and the private sector".

On the other hand an organization chart does not depict the actual operation of an organization. According to Fremont K. Allen, "The organization chart is at best an oversimplification and at worst a complete misrepresentation of reality."

FIDA Council Composition

The FIDA Act of 1963 provides that the Authority shall consist of the following:

- a) A Chairman;
- b) Deputy Chairman;
- c) The Director of the Authority;
- d) A representative of the Ministry of Commerce and Industry;
- e) A representative of the Treasury; and
- f) Not more than 7 shall represent institutions of commerce, manufacturing industries, industrial financing and industrial development.

Units Within FIDA

FIDA became operational in early 1963 and several units were established within the organization to carry out the functions of the Authority. The units are as follows:

- 1) Industrial Planning Unit - it is responsible for the identification of industries to be established and

⁷Interim Review, First Malaysia Plan, Government of Malaysia, 1968.

⁸Rudolph, Heinz, "A Note on the Federal Industrial Development Authority", Alliance, October 1968, p.5.

CHAPTER II

ORGANISATION

The purpose of this chapter is to study the organisation of FIDA to find out roughly how an organisation operates as administrators clearly worry about how accurately work relationships are defined in their organisation or how much ambiguity and overlapping of responsibility exists.

On the other hand, an organisation chart does not depict the actual operation of an organisation. According to Fremont J. Lyden, "the organisation chart is at best an oversimplification and at worst a complete misrepresentation of reality."

FIDA Council: Composition

The FIDA Act of 1965 provides that the Authority shall consist of the following:

- a) A Chairman;
- b) Deputy Chairman;
- c) The Director of the Authority;
- d) A representative of the Ministry of Commerce and Industry;
- e) A representative of the Treasury; and
- f) Ten other members of whom not more than 7 shall represent institutions of commerce, manufacturing industries,² industrial financing and industrial development.

Units Within FIDA

FIDA became operational in early 1968 and several units were established within the organisation to carry out the functions of the Authority. The units are as follows:

- 1) Industrial Planning Unit - it is responsible for the identification of industries to be established and

¹Lyden, Fremont. J., "What is an Organisation Chart?", Public Administration Review, Vol. XXVI, No.1, March, 1966.

²FIDA Act, op.cit.

developed in Malaysia. In addition, this unit also undertakes general surveys and formulates recommendations to government on industrial planning and programming.

- 2) Industrial Research Unit - it undertakes feasibility studies and market surveys.
- 3) Project Evaluation Unit - it evaluates and processes applications for pioneer status and other incentives. In addition it is also involved in the analysis of existing incentives and if necessary make recommendations to the government for new incentives.
- 4) Project Promotion and Public Relations Unit - This unit disseminates industrial information and publicises investment opportunities in Malaysia to both local and foreign investors. It is also involved in the formulation of industrial project strategy, conducts general and specific promotional campaigns overseas and promotes joint ventures between local capital and foreign knowhow.
- 5) Industrial Development in the States Unit - it assists the State governments in their industrial development efforts and in addition co-ordinates the industrialization efforts and policies of the Federal and State governments as well as provides special advice to the States in their planning and management of industrial estates.
- 6) Technical and Economic Service Unit - it is designed primarily to assist small and medium-sized industries in technical, engineering and marketing problems and also lend advice on their financial and managerial problems.
- 7) Staff Training Unit - will service other government and private bodies in respect of training of officers with the view towards orientating them to the needs of industrial development.
- 8) Administration Unit - responsible for the day-to-day administration, providing secretarial and personnel services, finance and accounting operations.

The first 6 units are classified under the Operational Division while the other 2 units are under the Administrative Division.

FIDA: Hierarchy of Authority

The Minister of Commerce and Industry, who occupies a position top on the organisation "may give to the authority directions of a general nature, not inconsistent with the provisions of the FIDA (Incorporation)

Act 1965 in the exercise of the functions of the Authority."³

Next in importance or one step down the hierarchy is the Chairman of the Council and the FIDA Council itself. The Chairman "shall be appointed upon such terms and conditions as the Minister may determine" and he presides over the Council meeting and releases to the public the specific policy the Authority intends to take from time to time. The Chairman is also the Permanent Secretary to the Ministry of Commerce and Industry and one official says that "he is in constant contact with the Minister but lacks sufficient contact with the FIDA Council".

The FIDA Council which comprises members from public and private institutions involved in industrialization is mainly concerned with the running of the Authority and it is more administrative. One official also claims that it decides the very broad aspects of policy to be adopted.

The post of Director of FIDA is an important one as the government of Malaysia took almost 2 years to find a director for the organisation. In the words of the Minister, "the executive duties will be directed by a managing director." The powers of the Director is very limited but he is the most important man in the organisation. The heads of the various units of FIDA report to the Director and receive instructions from him in turn. At the same time he is responsible to the Minister through the Chairman who is also the Permanent Secretary of the Ministry of Commerce and Industry. Since April 1969 a Malaysian was appointed to the post of Director and the present Director also holds the post of Controller of the Industrial Development Division of the Ministry. One official says "after all FIDA is under the IDD administratively". This concurrent appointment is to make co-ordination more feasible between FIDA and the Ministry of Commerce and Industry and in addition it represents the first step towards removing the frustration of would-be investors who complained of having to grind their way through several organisations before they could set up a plant.

It is my view that there was this need for this concurrent appointment as the roles of Controller of Industries and Director of FIDA very much overlap and if done by 2 persons could lead to conflict and delay. In addition the FIDA Council should be given more executive authority than its present advisory capacity, eventually resulting in accelerated industrial growth.

To give the FIDA Council executive authority there must be some pre-requisites, namely:

- 1) those with industrial expertise should sit in the Council,

³Ibid.

⁴Ibid.

⁵"Focus on Malaysia", Asia Magazine, 29th August 1965, p.10.

i.e. FIDA Council should have an Advisory Panel of industrialists with expertise drawn from different types of industries;

- 2) various ministries having to do something in industrial development should have a representative in the Council;
- 3) there should be more private representation in the Council as ours is a free enterprise system;
- 4) setting up a body by legislation is insufficient but the organisation should move much faster than a government department; and
- 5) there should not be proliferation of institutions resulting in duplication of paper work and delay.

To elaborate further on the prerequisites mentioned above:

The question of industrial expertise - Within the FIDA Council there should be a Panel of industrialists either foreign or local experts who are competent. This provides some specialization and efficiency.

The representation from affected ministries - The present FIDA Council does not comprise representatives from the affected ministries and one official in a firm puts it as "the processing of applications for pioneer status takes often 4 to 6 months and this frustrates any industrialist."

Private sector representation - The representation of private elements in the Council is basically insufficient even though the Chairman of FIDA once said that, "the central role of accelerating manufacturing development is entrusted to the private sector."⁶ Many foreign firms expressed the view that private sector representation is insufficient and there is very little contact and consultation between the private sector and FIDA. To put it in another way, what the private sector wants is to play its part, by being introduced as an integral member of any planning committee at the commencement, not at the end.

The question of organisational shortcoming - The Chairman of the Council and the Director of FIDA are top civil servants in the Ministry of Commerce and Industry. In addition many of the people in the Council are also from the public sector. On the other hand the main party involved in industrialization is the private sector. To this effect many outside the organisation attack the agency as carrying out its functions with the existing governmental regulations which proves dysfunctional and it carries the connotation of red-tapism which is usually associated to any governmental department.

⁶ Malaysian Industrial Digest, FIDA publication, Vol.2, No.1,

The Authority should have a full-time Council which comprises coopted elements from the private sector having a major say in policy formulation so that problems, recommendations and approaches for expanding or improving the industrial activity can be decided without delay. One official from a foreign firm has this to say, "there must be improvements and streamlining made in the organisational structure to draw people with expertise to make the organisation dynamic".

The question of centralization and uniformity - In theory FIDA is given the responsibility for the promotion and co-ordination of industrial development in the Federation. But, in practice since land is a State matter the Industrial Development Division in the States Unit in FIDA only assists the States in their industrial development and to some extent co-ordinates the industrial efforts and policies of the Federal and State governments. The extent of decentralization and non-uniformity has led to a stage that one official puts it as "FIDA should be given powers by legislation to override the State laws to programme and implement overall plans for industrialization throughout the federation".

The organisational defects in FIDA are more evident and to this effect I received negative replies to many questions asked in my questionnaire. To make matters worst I was also told "no comment" to certain questions that are needed for a look into the actual functioning of the organisation.

Defects in the Organisation

The defects in the organisation of FIDA are as follows:

- 1) Lack of political control and power - FIDA when compared to other institutions like EPU or DAU is very far from the centre of power structure and has no direct accessibility to the Prime Minister or his Deputy even though the government's policy is geared more towards industrial development. The success of the Ministry of Rural and National Development in achieving formidable results in rural development was because its activities were closely supervised by the Deputy Prime Minister by his famous Operations Room technique;

FIDA was also not given enough power by legislation to innovate and venture into industrial programmes or conduct independent feasibility studies.

- 2) Lack of resource control - For any agency to be dynamic as a statutory body it should possess some resource control in conducting its operations. This, to a large extent, curbed FIDA's activities into feasibility and research in industrial research;

- 3) Private sector never became an effective pressure group - Private sector both outside and more particularly within the organisation remains a passive group. One industrial officer in a firm puts it as "these private sector members are in the FIDA Council because the FIDA Act says so".

The non-effectiveness of the private sector group has made it remain outside the process of policy formulation even though it affects the private industrialist most. The non-effectiveness of the pressure group may also imply their acceptance of anything that is passed by the government.

- 4) It stands on the same footing as other agencies - This does not make FIDA an effective body as it becomes a competitive agency and has no power to direct the activities of other agencies as it is entrusted with the responsibility of industrial development in the Federation. No power to control also implies that it lacks the linkages to co-ordinate the activities of all agencies involved in the industrial field. This situation results in slow pace of industrial development which the nation as a whole cannot afford as the government largely depends on the industry to employ the ever-growing labour force.

FIDA is also not delegated enough executive power by legislation to implement programmes it feels the most feasible. The present situation is that if it finds a particular programme most feasible it recommends to the government and it takes some time before it gets the go ahead signal. This time lag has an important lost-effect particularly in industrial activity in this nation.

- 5) Lack of people with industrial expertise in the organisational hierarchy. - Most of the staff of the organisation who hold top posts lack efficient industrial know-how except the advisor to FIDA, who was its former Director and some experts attached to FIDA. This results in decisions and feasibility surveys not having the intended effect or lacking certain elements. It is evident from the FIRST FIDA Survey of Industrial Trends which is accompanied by a warning, "not a very solid foundation on which to build conclusions". This makes the survey a wasteful effort in terms of manpower and resources and suggests that, "until FIDA has a better questionnaire and rather more experience it ought to keep to itself such findings as it thinks it has stumbled on".

⁷ Straits Times, 13th June 1969.

⁸ Sunday Mail, 22nd June 1969, p.5.

- 6) The director not delegated enough power to take or make independent action if necessary - When I asked the director in my questionnaire what are some of his discretionary powers?, his reply was "no comment". In addition, whenever I went to see him to clarify some issues he often told me "I have to see the Minister". From this it can be concluded that the director is not delegated sufficient power as head of the Authority but "Mr Yeo Beng Poh's appointment to this post early this year allowed investors to go straight to him for consultation". In addition, the span of control of the Director is very wide and working relationship between the Director and Heads of various Units within FIDA is mainly through weekly and monthly reports. The Director in the present organisational structure not only has to take charge of special activities calling for his personal guidance but also the overall general administrative and routine task.
- 7) No central control by FIDA on the activities of States in industrial activity - FIDA is entrusted with industrial development in the Federation but the respective States also have their own industrial activity at State level. The point to note is that FIDA's activities become bogged down in relation to the acquisition of land for opening industrial estates as land in Malaysia is a State matter and therefore FIDA has no authority over State governments in the planning of industrial sites and can only advise in such matters. In addition many of the difficulties that have perennially attended industrial development lay at state and district level particularly so according to an industrial official, "in their lack of a sense of urgency" and he added in "some instances even a district officer could hold up a project that the central administration in Kuala Lumpur thought should have priority".¹⁰
- 8) The extent of red-tapism - When FIDA was created the Minister said that "it will be made a statutory body . . . it would be free from government red tape."¹¹ But since there is a lack of co-ordination between institutions involved in industrial activity, there is a lot of delay. According to one industrial officer "even the mere processing of pioneer certificates often takes about 6 to 9 months".

The DAU's Findings

The DAU (Development Administrative Unit) after being invited

⁹Ibid., p.5.

¹⁰Straits Times, 5th June 1969.

¹¹Asia Magazine, op.cit., p.11.

by the Director and Chairman of FIDA to study the organisation came out with findings and recommendations to resolve the internal and external problem areas in FIDA's organisation. This paper is entitled, "The Reorganisation of the Federal Industrial Development Authority".

The DAU came out with the following findings which are as follows:

- 1) The existence of the Industrial Development Division (IDD) of somewhat similar function, and FIDA in the Ministry of Commerce and Industry tends to detract from the legally defined role of FIDA. This results in overlapping of functions, duplication of work, scattering of scarce resources and skills, excessive delay and confusion in the minds of potential investors and entrepreneurs as to which is the contact centre for them.
- 2) There is duplication of effort between FIDA and other organisations like MARA, MIDF, etc. in the area of project recognition and identification. Thus the internal structure of FIDA is not providing for effective and constructive liaison with these organisations.
- 3) The administrative division is not functioning well.
 - a) The Secretary does not appear to be aware of the activities and programme planning of FIDA, resulting in his (i) not being able to take over all general administrative and routine tasks of the Director and the Heads of Divisions so that they can concentrate on special activities calling for their personal attention and guidance, and (ii) being handicapped in the preparation of the annual budget and mid-year forecasting,
 - b) The opening of mail is done by the Assistant Secretary who forwards the folders containing operation and administrative mail direct to the Director and not to the Secretary resulting in the Secretary being rendered ineffective in his particular field of general administration,
 - c) All mails going out from the various Divisions are included in float files but Heads of Divisions are not seeing such float files. The office float file is not seen by the Secretary. It appears the Director retains it for a few days before sending it back to the Assistant Secretary.

In addition, there is no laid down schedule of duties in respect of the Assistant Secretary and other junior staff members.

- 4) There is an inadequacy of cross-flow of information

between the operational divisions due to over compartmentalization. The working relationship between the Director and Heads of Divisions is mainly through weekly and monthly reports.

- 5) Decentralization of functions and responsibilities in the operational division had led to ineffective span of control.
- 6) The Director's revised organisational chart, not in operation yet, has expanded the organisation laterally without grouping related activities on the basis of better co-ordination and effectiveness.
- 7) There is no clearly defined schedule of duties for officers which can indicate clearly to them as to what is expected of them as against pre-determined objectives.
- 8) There is no local officer under-studying the present training officer who is a foreign expert. Training does not warrant a division by itself.
- 9) There is no proper system of internal communication.

DAU's Recommendations

DAU after considering that the cardinal functions of FIDA are to PROMOTE and CO-ORDINATE industrial development and to ADVISE THE MINISTER IN THE FORMULATION OF POLICIES THEREOF, came out with recommendations to re-structure the organisation, FIDA and in addition, according to the Director, "there has been overlapping of functions between FIDA, MARA and FLDA and we have recommended greater co-ordination among them."¹²

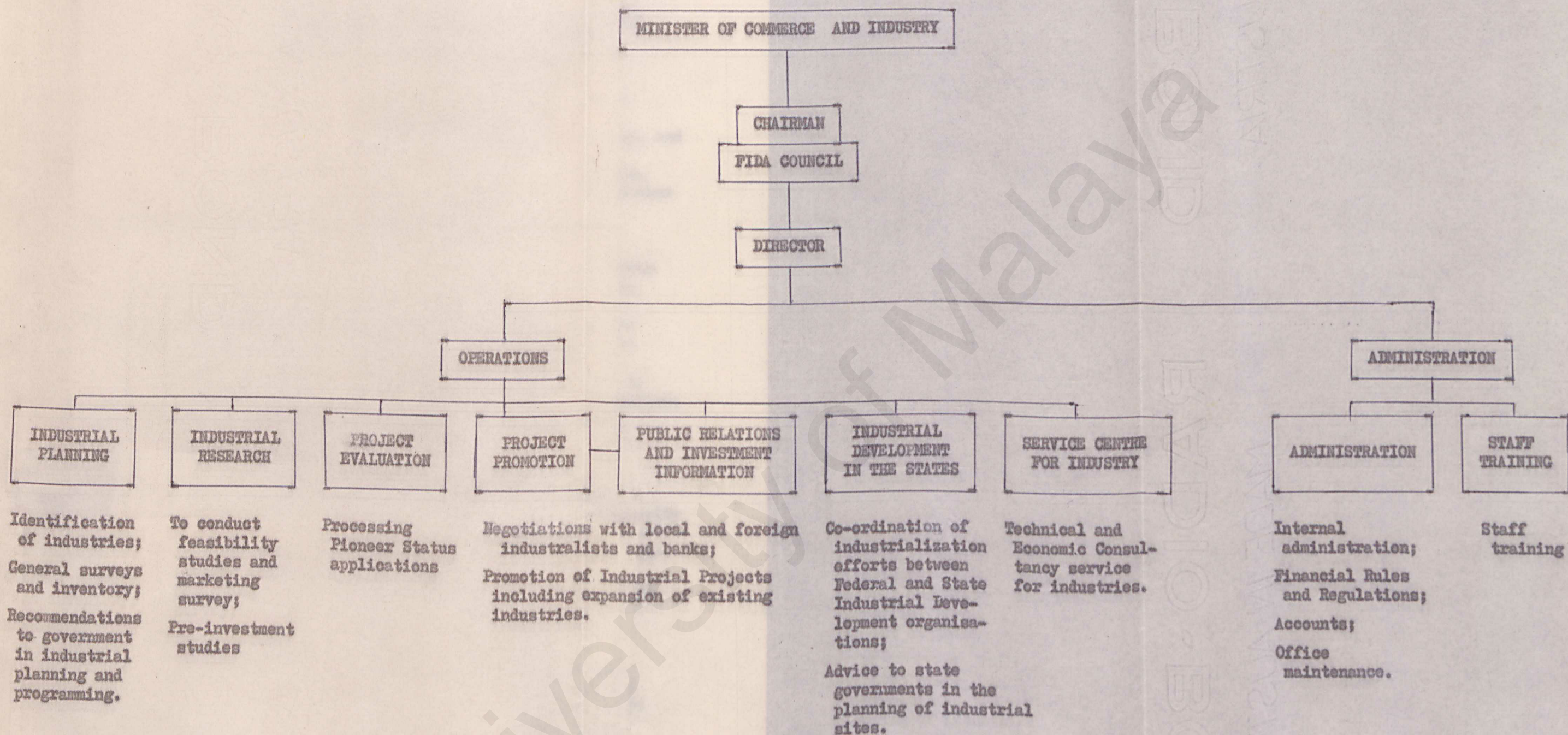
The recommendations are as follows:

- 1) The Industrial Development Division (IDD) was a valid organisation in the past in the Ministry of Commerce and Industry. However, with the enactment of Act No. 13 of 1965, ushering in the FIDA, IDD is redundant. Its continued existence encroaches on the functions of FIDA as defined by statute. The amalgamation of IDD and FIDA is not only a progressive step but an essential move in the industrial development of the nation as it gives FIDA its functional responsibility.
- 2) To avoid the existing duplication of efforts between FIDA and other organisations like MARA, MIDF, etc. There is a need for administrative arrangement to be made whereby FIDA can liaise closely and effectively with the other organisations by:
 - a) circularising industrial studies to avoid duplication in selection of projects, and

¹² Straits Times, 13th January 1969.

- b) arranging regular meetings to discuss each others long-term planning and programming for industrial development.
- 3) The present organisation (see chart 1) distribute and assign the role of FIDA into various technical divisions whereby Divisional Heads tend to work independently and in isolation resulting in delays and duplication of work. This can be overcome by grouping related activities into 3 divisions i.e. Industries Division, Consultancy Division and Administrative Division to achieve optimum of organisation, effective control and co-ordination of activities. The proposed organisational structure is included in this chapter (refer to chart 2).
- 4) The Secretary to the Authority is a senior appointment in FIDA and for him to plan and control the activities of various Divisions, he must know the Authority's objectives, policies and functional responsibilities. He cannot be a passive and detached official but he must exert himself by exercising his authority and command over his staff and take over all general administrative and routine tasks of the Director so that the latter can concentrate on special activities calling for personal guidance.
- 5) There is a need to create a new post of Deputy to the Director to head the important Industries Division. This officer should be a senior executive with practical experience both in the management of industrial enterprises as well as in the direction of organisation for eventual grooming as Director. By this officer assuming command of the Industries Division he can ensure that there will emerge a state of concurrent activity in
- a) formulation of plans for industrial development and growth;
 - b) feasibility studies and market possibilities for these industries; and
 - c) evaluation of pioneer relief and other incentives and international and local publicity for promotion.
- 6) The Training Division has a limited function and can appropriately come under the supervision of the Secretary who can work with the training officer in developing a training programme tailored to meet the needs of the organisation. For continuity and long-term goal, a suitably qualified local officer must now be recruited to understudy the present foreign expert.
- 7) The Director should keep in close touch with the 3 divisions and co-ordinate the various activities into a cohesive whole. What is required of him is

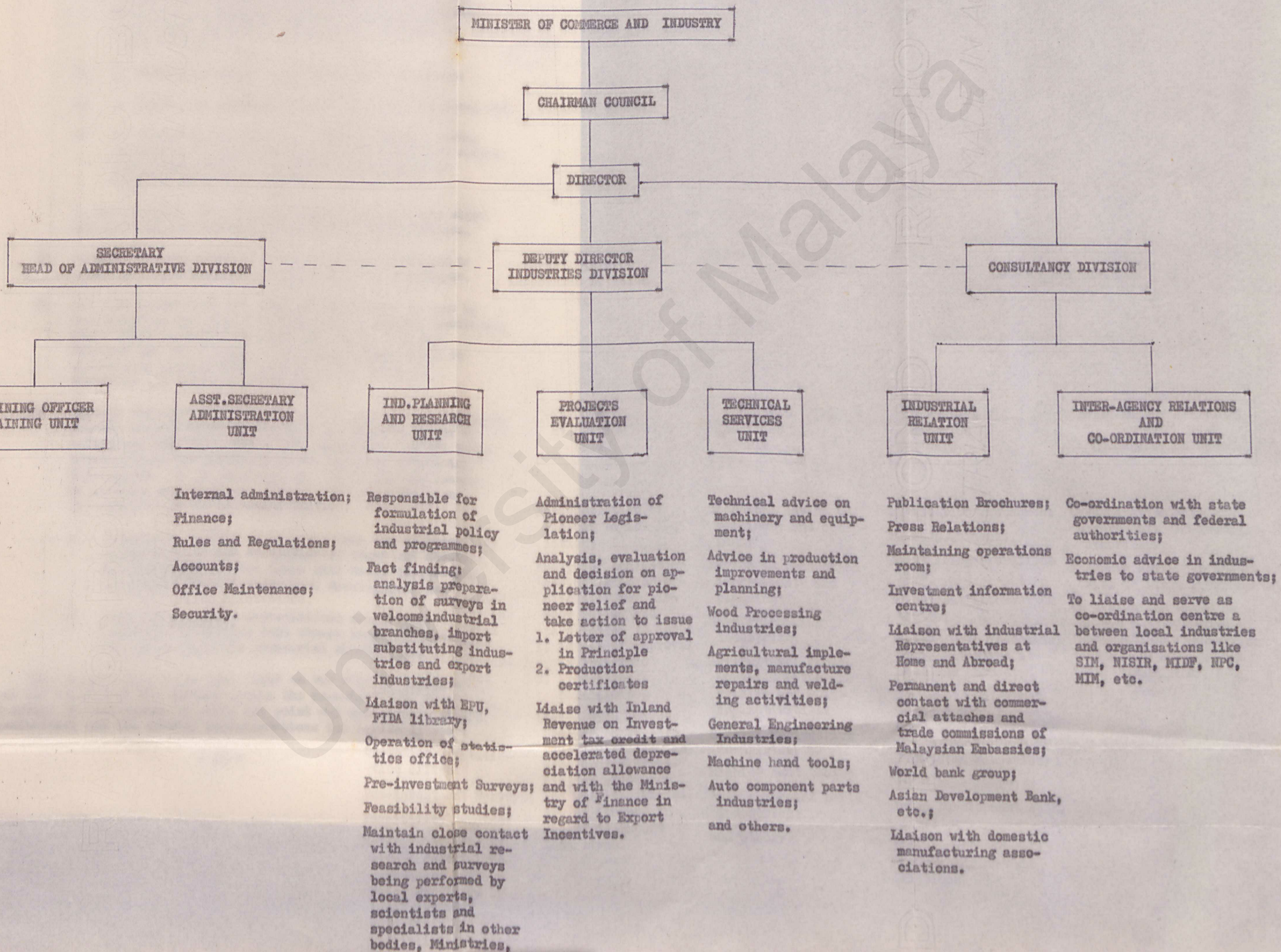
CHART I
ORGANISATION CHART OF FIDA



FIDA Council Members

1. Y.M. Raja Tan Sri Mohar bin Raja Badiozaman (Chairman)
2. Mr Wong Yoke Meng (Treasury)
3. Mr Yeo Beng Poh (Representative from Ministry) now Director of FIDA
4. Mr Thong Yaw Hong (EPU)
5. Enche Osman bin Mohd. Sham (MARA)
6. Tan Sri T.H. Tan (United Chamber of Commerce Malaysia)
7. Raja Khalid bin Raja Harun (United Chamber of Commerce, Malaysia)
8. MR. A.D. Fraser (National Chamber of Malaysian Manufacturers)
9. Mr H.F.G. Leembruggen (MIDF)
10. Mr E.J. Neal (Borneo Development Corporation Ltd.)
11. Mr T'en Kuen Foh (State Financial Officer, Sarawak)
12. Mr Howard Yap Hyun Phen (Borneo Housing Development Ltd.)
13. Mr David Cheong

CHART II
PROPOSED ORGANISATION CHART OF F.I.D.A. (BY DAU)



- organization of a) to carry out more direct and effective liaison with the divisional officers and hold weekly meeting to get involvement and participation from all to achieve the goals of the organisation;
- b) to ensure that there is a continuous flow of information between the Divisions and this should follow up by discussing frequently with divisional heads their particular problems and progress in tasks assigned;
- c) to document policies in order to guide officers;
- d) to define his officers' areas of responsibilities; and
- e) to establish in conjunction with divisional heads, priorities of projects or scheme of priorities rather than leaving this to the heads of divisions to identify their own projects.

In this respect, the proposed organisational chart shows the vertical and horizontal relation of each division.

- 8) Manuals of instructions be formulated and developed to serve as a spring-board for improvement of procedures.
- 9) All mail operational and administrative must be seen by the Secretary who will farm them out to officers concerned; float files on graded material will be seen by the Director and the 3 heads of divisions; float files on operational matters will be seen by the Heads of Divisions and officers concerned.
- 10) Certain administrative arrangement be made in the Authority whereby co-ordination in the closest possible manner is maintained with MARA, MIDF, TAB, FAMA, etc., as all these organisations are promoting or facilitating industrial development. It is necessary that as little duplication as possible should occur. Liaison and co-ordination are required in the following areas:
- a) Industrial studies or projects that any of these organisations wish to sponsor or carry out should be circulated so that there will be no duplication in efforts towards industrial development; and
- b) FIDA and all these organisations should meet regularly to discuss each others long-term planning and programming for industrial development.

This chapter has thrown some light on how FIDA is organized to carry out its functions; the defects within the organisational machinery; to what extent DAU had access to study and point out the defects within the organisation; and its (DAU's) recommendations for improving the

organisation of FIDA. But its recommendations are yet to be accepted even by the Ministry of Commerce and Industry. At the present moment FIDA is in a state of flux as some of its major decision-making functions are taken over by the Capital Investment Committee, which will be discussed in another chapter.

CHAPTER III

FIDA AND THE PUBLIC AND PRIVATE SECTORS

The aim of this chapter is to study the relationship between the public sector, the private sector and FIDA and what role and to what extent these 2 sectors are involved or participate in the functioning of the FIDA machinery. In addition this chapter will show the role the public sector is expected to play in a pre-industrial economy like Malaysia.

FIDA and The Public Sector

FIDA is a statutory body and receives a grant from the government to perform its functions. It comes under the I.D. (Industrial Development Division) of the Ministry of Commerce and Industry as "if maximum industrial development is what a country really wants, a policy decision as to how it is most likely to be attained should be made." But the government cannot perform this enormous task all by itself. Thus the government established an agency, FIDA to study industrial development problems from the view point of the economy to learn which industries have the prospects of being of high value to the country.

The relationship between FIDA and the public sector can be studied from the following roles FIDA plays:

- 1) It encourages balanced development - encourages the distribution of factories;
- 2) studies the possibilities of giving added incentives to the industry;
- 3) processes applications to avoid unnecessary duplications; and
- 4) co-ordination of industrial development by selection of sites and advice on the types of industries which should be sited in these industrial estates scattered all over the country.

Therefore, FIDA creates conditions which are mostly advisory for the ultimate success of government's industrial policy. One FIDA official puts it as "FIDA directly under the government but free from government red-tape and the government representatives in FIDA sit in the various committees of government in which FIDA acts as Secretary".

¹ Bryce, Murray D., *op. cit.*, p. 38.

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¹Bryce, Murray D., op.cit., p.38.

The framework for a realistic analysis emerges when State's relationship to industry may fit the following analysis as expressed by Sargent Florence;²

a) The State as a Third Party

- 1) keeping the ring round contestants, and setting up organisations as contestants (combination and Trade Union Acts, Statutory Companies, etc.)
- 2) Defending one party from another.
 - a) Workers from employers (Factory and Mines Act, Minimum wage procedures);
 - b) Consumers (and suppliers) from industry (Control of Monopoly);
 - c) Neighbours from industrial nuisances (Town Planning);
 - d) Shareholders from Promoters and Directors (Company Law);
 - e) Investors from Pirates or Consumers from Investors (Patent Acts).

b) The State as the Primary Party

- 4) Publishing of information about industry.
- 5) Providing a palliative against industrial mishaps (Workmen's Compensation).
- 6) Providing a service for industry (Technical Schools Scientific Research).
- 7) Operation of particular industries (Nationalization).

c) The State as the Secondary Party

Control over industry as such (not separate industrial parties) through various governmental bodies, towards certain aims (e.g. financial stability, full employment, national viability) by various procedures: incentive and deterrent; coercive and physical (Tariffs, Subsidies, Budgetary Policy and Bank Rate, etc.)

Therefore, the State, i.e. the public sector is involved either directly or indirectly as third party, as a Primary Party and as a /a

²Florence, P. Sargent, Industry and the State, Hutchinson and Company (Publication) Ltd., 1957, p.49.

Secondary Party in the industrial development of the nation and in the case of Malaysia some functions are delegated by legislation to FIDA.

FIDA's interaction with the public sector is mainly for providing facilities and incentives for industry. Facilities include well developed infrastructure and services, industrial estates, loan facilities for industry, production training, industrial training, industrial research and the alike. The incentives include free transfer of capital and earnings, tariff protection and the alike. At this juncture it is important to take note of the Investment Incentive Act of 1968. When the Investment Incentive Committee and FIDA made recommendations to the government to improve on the Pioneer Industries Act of 1958, the government passed a legislation known as the Investment Incentive Act, 1968. Thus, the range of government help and methods that can be employed are very great to accelerate industrialization. Tun Razak once said that "the establishment of FIDA and the forthcoming passage of the new Investment Act represent major institutional steps in the government's effort to encourage continued growth of foreign and domestic investment in industry."³

Another factor in the interaction of FIDA and the public sector is that if the government leaves industrial development wholly to the private sector then as such "it should know as much as possible about development possibilities so that it may promote interest in the priority fields, so that social overhead facilities may be directed in the right way and so that special inducements may be made to encourage industrial investment in the most sound areas."⁴ But without FIDA and some experts' contribution in making feasibility surveys, selection of sites and advice on the type of industries there lies a danger that the government directly or indirectly may be responsible for investment in considerable projects because of political pressures or decisions by misinformed or uninformed people. In this instance the interaction of FIDA and the public sector is conducive to the national goal and private interests.

The Suggested Role of Government

Due to the many obstacles to industrialization which exist in a pre-industrial economy, as well as to the smallness of the private sector the government must take a dominant role in all phases of the process. This leadership takes many forms:

- 1) It's the issuance of clear-cut statements as to its policy and programme which go a long way towards encouraging the private sector in the knowledge that government policy is stable and consistent.
- 2) The government should give assistance to the private sector in the form of supplying reliable economic data and in

³Malaysia Industrial Digest, Vol.I No.(1), 1968.

⁴Bryce, Murray D., op.cit., p.64.

providing training facilities for workers.

- 3) The government should also take responsibility for ensuring that the necessary capital is forthcoming to finance ventures which it considers desirable as well as to provide credit facilities for their operation.
- 4) It should take necessary action in the field of tariff and taxes to provide protection to "infant industries" and to assist them in becoming economically successful.
- 5) It should do whatever is necessary to keep the private sector informed of developments, provide forums for discussion of management and other problems of groups having similar interests.
- 6) It should take representatives of industries fully into its councils (e.g. FIDA Council) to obtain their suggestions and views, particularly when any new programme or change in policy is contemplated.
- 7) The government should provide every form of encouragement to new industry and permit it to build up confidence in itself at the same time indicating that industry can only "grow up" through assuming its proper share of responsibilities.
- 8) It should give consideration to going into partnership with industry as well as to undertaking the actual establishment of industry in its own account, when such industries will serve as a basis for further growth or will provide services for present or prospective industry. Tun Razak says that, "the government will take the initiative in industrialization and if necessary, will participate in the establishment of industries either by itself or in joint venture with the private sector both local and foreign."⁵
- 9) The government should undertake responsibility for the planning and co-ordination of industrial development in order to ensure that all sectors of the economy make their proper contribution to the process, and that the development does not itself adversely affect the balance of the economy.
- 10) In the field of industrial development the agency responsible (i.e. FIDA) must rely upon the full co-operation of multitude of other government agencies which are interested only incidentally in the process of industrialization but whose understanding and co-operation is vital to the carrying out of the industrial programme.

⁵Straits Times, 2nd July 1969.

The government of this country plays most of the roles through the agencies that are created to perform the various tasks (refer chapter I) as mentioned above to some extent to remove obstacles to industrialization. What should be done is that government with some of the tasks borne by FIDA should provide an efficient machinery with effective co-ordination and co-operation with other agencies and the private sector.

FIDA and The Private Sector

So far the analysis tended mainly to concentrate on the interaction of FIDA and the public sector in the field of industrial development but the private sector participation was touched upon very vaguely.

The industrial policy of the nation was summarized by the Chairman of FIDA as "the central role of accelerating manufacturing development is entrusted to the private sector. The government's role is to act as co-ordinator of industrial efforts and also to provide assistance to private investors and entrepreneurs"⁶ and in addition the Minister of Commerce and Industry once said that, "the private sector has played an important role in industrial development and it will always have a place in Malaysia's plans for future development."

But, in FIDA few private sector representatives sit in the Council and they don't form effective pressure groups within the organisation and their voice does not go to shape any industrial policy. The President of the Malaysian International Chambers of Commerce, Mr Wood once remarked, "what the private sector wants is to play its part, by being introduced as an integral member of any planning committee at the commencement, NOT at the end."⁸

My survey on the basis of questionnaire which covered about 5 local and 5 foreign firms revealed the following:

- 1) Most of the firms were very reluctant to reveal their nature of contact with FIDA and 1 official said, "we have regular contact with MIDF but not with FIDA";
- 2) Most of the firms expressed the view that FIDA did not impose any restrictions in their operation;
- 3) To most of the firms, as a semi-autonomous body FIDA is a positive factor in private sector development as it brings to limelight the latest development projects that they are about to embark; providing services such as foreign enquiries into setting up viable projects in the country through the publications of FIDA and keeps the industry informed;

⁶ Malaysian Industrial Digest, Vol.2, No.1, 1969.

⁷ Malay Mail 28th March 1969.

⁸ Ibid.

- 4) Many industrialists in these firms also admitted that they had some problems when they invested in this country. Namely the problems are, the acquisition of local skill and know-how, political instability, excessive red tape required from planning stage to the initial production time and the existence of multiplicity of institutions to be dealt with; and
- 5) They say that private sector representation in the Council is inadequate and in addition most of them were not consulted in the formulation of the Investment Incentive Act. But view this act as a potentially conducive force.

From this survey it can be positively concluded that eventhough government depends on the private sector to play the dominant role in industrial development in this nation, it gives the sector little or no participation in the formulation of policies, according to which the private sector has to gear its way. The lack of private sector representation in FIDA has to some extent resulted in the formation of a pressure group outside the organisation. The Federation of Malaysian Manufacturers (FMM) and its objectives are:

- 1) to promote and protect the interest of local manufacturers and to provide facilities for the exchange of views between manufacturers and government and other institutions.
- 2) to act as an information centre.
- 3) to collect and disseminate data on industrial trade, commerce and other relevant information for the benefit of its members.

The interaction of FIDA and the private sector is seen in the "match-maker" role played by FIDA. FIDA's Registry of Potential Investors and entrepreneurs has contributed to the promotion of joint venture enterprises. Since its establishment many potential investors both local and foreign have benefitted from the services provided by FIDA. This policy has been designed mainly to provide an opportunity for Malaysians to participate in the industrial Development of their country.

The Director of FIDA recently expressed the view that FIDA will press for legislation to ensure that potential investors seek government approval before setting up industries. This, according to the Director, is to facilitate co-ordination of industrialization programmes to prevent excess capacity in any one industry and to protect industries. As at present, investors are required to seek government approval before manufacturing but this requirement is not enforced. The Director explained that, "the proposed legislation would not be a restriction on trade but rather an attempt to co-ordinate the industrial programmes of the various government and quasi-government bodies".⁹

⁹ Straits Times, 28th June 1969.

In conclusion, it can be stated that unless the government recognises to the full the extent of its own responsibility, no strong foundation will be laid which will enable the private sector to make its own contribution. The private sector in order to make its contribution requires of the government the following:

- a) provision of the many services and forms of assistance;
- b) clarity of policy and efficient and businesslike administration of policy; and
- c) an indication of the role it can play, an invitation to become a member of the "industrial development team" - i.e. a say in FIDA and a say in the formulation of policy by government concerning industrialization - and an opportunity to make its full contribution to such a team.

6, 1969, to boost and streamline industrial development throughout the country. This committee has been empowered by the government to make on the spot decisions or refer to the Cabinet or the KOD for endorsement of any decision it takes. AGRICULTURE, indeed, will be the chief concern of the CIG.

In its terms of reference the CIG will review "the current policies and programmes of industrial development - both at Central government and State levels - with a view to co-ordinating them into an integrated programme of accelerated industrial development". Other powers given to the Committee are:

- 1) To identify development priorities, and formulate policy guide lines and directives for industrial development;
- 2) To streamline present procedures for processing applications to speed up decision making on industrial matters;
- 3) To reorganise existing staff of different organisations into a cohesive force to achieve its objectives; and
- 4) To direct the implementation of the committee's policies and decisions in collaboration with State governments and departments concerned.

After the committee's first inaugural meeting a statement was issued. It stated that it would provide a top-level review of the country's industrial policies and programmes at both federal and state level "with a view to co-ordinating these into a stronger, more consistent and integrated development strategy" and also that the private sector would be invited to form an Advisory Panel to the Committee.

The CIG comprises of the following members (refer chart 3):

Chairman:

Minister with Special Duties

1 Straits Times, 7th June 1969.

Deputy Chairman

Minister of Commerce and Industry

Ministers:

Minister of National and Rural Development

Assistant Minister of Finance

CHAPTER IV

Members:

The Chief Civil Service Affairs Officer

The Governor of Bank Negara

The Secretary to the Treasury

Members from the Prime Minister's Office

CAPITAL INVESTMENT COMMITTEE (CIC)

The purpose of this chapter is to study why the government set up the Capital Investment Committee, what are its functions and what are the advantages of having this committee, when compared to the Federal Industrial Development Authority.

The NOC (National Operations Council) set up the CIC on June 6, 1969, to boost and streamline industrial development throughout the country. This committee has been empowered by the government to make on the spot decisions or refer to the Cabinet or the NOC for endorsement of any decision it takes. ACTION, indeed, will be the chief concern of the CIC.

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¹ Straits Times, 7th June 1969.

Deputy Chairman	Minister of Commerce and Industry
Ministers:	Minister of National and Rural Development Assistant Minister of Finance
Members:	The Chief Civil Service Affairs Officer The Governor of Bank Negara Deputy Permanent Secretary to the Treasury Member from EPU Member from the Prime Minister's Office Permanent Secretary, Ministry of Commerce and Industry Chairman, TAB Director, FIDA

The work of the CIC is facilitated by the establishment of the NOC, which in effect provides a very powerful central government which could permit much more incisive decision making and implementation. To assist the working of the CIC smoothly Tun Razak after meeting the State Secretaries and Commissioners of Lands and Mines issued the following statement which recommended:

- 1) The appointment of a senior government official with sufficient executive powers in each state to expedite decision making on industrial development matters;
- 2) A more streamlined method of processing application for industrial sites without delay;
- 3) States which do not have industrial estates should assist private investors to acquire land; and
- 4) All out effort to streamline technical departments to speed up approval of site and building plans for factories.

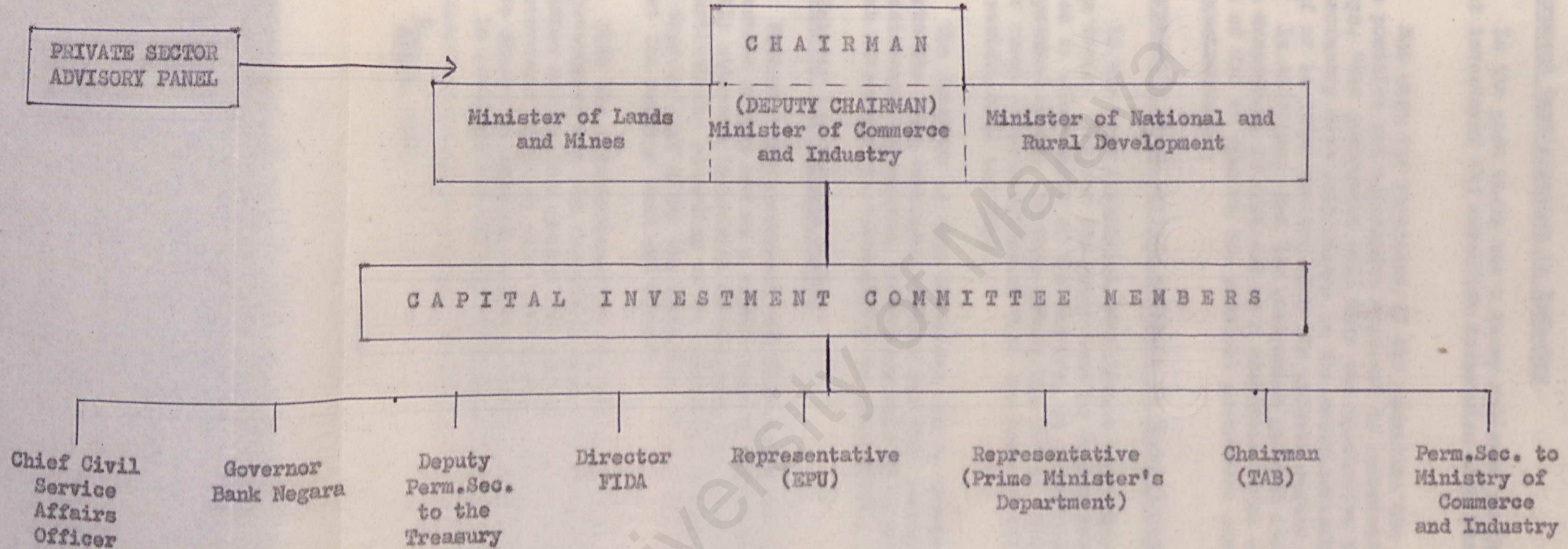
The formation of the committee completes the government's aim of removing obstacles impeding the way of foreign investors. In this regard the Emergency has its blessings in that it accelerated the existence of the committee, which was already considered by the government even before the May disturbances, as the CIC was one result of mid-term review of the First Malaysia Plan in exploring the means of accelerating the programme of industrialization, and "successful already in streamlining administrative processes which have been great time wasters"² according to Tun Razak.

The Chairman of the CIC states that Malaysia is to pursue a 4-prong approach under a more aggressive and specific form of promotional policy to accelerate the pace of industrial development. This will be in the form of a more rapid approval for individual projects, the adoption of a specific investment promotion programme, the drawing up of a new industrial development strategy and the formation of a private sector

² Straits Times, 2nd July 1969, p.8.

CHART 3

THE COMPOSITION OF THE CAPITAL INVESTMENT COMMITTEE (CIC)



Perm. Sec. Permanent Secretary

advisory panel to advise the CIC.

The advantages of the CIC to a very large extent were the defects within FIDA and its organisational set-up. The advantages of the CIC are as follows:

1. Government Participation in Industry

In the past there was a heavy reliance on the private sector to carry out investment and establish industries with the help provided by FIDA.

But with the formation of the committee the government is taking a positive and aggressive approach to industrialization. Tun Razak says, "the government will take the initiative in industrialization and if necessary will participate in the establishment of industries either by itself or in joint venture with the private sector both foreign and local".³ In addition, when the government granted licences to 3 American companies, it also set up a committee which comprises the Chairman of CIC to discuss the possible government participation with the 3 organisations.

2. Government's First Serious Attempts at Rural Industrialization

In the past industrial development has taken pace mostly in the large towns. But now the government is taking steps to disperse industries to other parts of the country, in particular to the economically depressed areas. To this extent the CIC is drawing up a blue print for rural industrialization with the help of officials from the private sector, MARA and FAMA.

The drawback is that investors can be coaxed to put money and effort into the less developed regions but they cannot be directed there, and if additional and special incentives fail to speed the industry then government investment is certainly to be considered.

3. The Role of the Various States

Formerly the government and FIDA could not get the co-operation of the various states and as a result many of the difficulties that have perennially attended industrial development lay at state and district level, particularly according to an industrial officer "in their lack of sense of urgency" but after the formation of the CIC he adds "the states should get the message loud and clear".

With the establishment of the NOC under the Emergency, the central government has the overriding power to direct industrialization in the states and to this extent the states were directed to appoint a senior government official with sufficient executive powers in their respective states to expedite decision making in industrial development matters. In addition the CIC has been empowered to direct the implementa

³Ibid., p.8.

tion of the committee's policies and decisions in collaboration with the state governments and departments concerned.

4. The Elimination of Existing Defects Within FIDA

The CIC was empowered to redeploy existing staff of different organisations into "a more cohesive force" to achieve its objectives. But this redeployment of the present staff of departments and agencies which have been handling industrial development and the powers the CIC has been given by the NOC can hardly be wielded at less than ministerial level.

Thus recognising its superiority over FIDA, the CIC has streamlined the machinery of implementation and procedures and recently was able to produce the establishment of a number of industries which in the past used to take many months to process. The CIC has reduced measurably the time lag between planning and production. Tun Tan, the Chairman of CIC once remarked that 26 pioneer applications were approved within 20 days of the establishment of the Committee.

But a local economist, Dr V. Kanapathy says, "capital and pioneer certificates alone will not bring about successful industrialization. We need trained men to manage these industries . . . and a high sense of purposefulness must be injected to all participants of this development process - politicians, civil servants, workers and managers."

5. The Whole Question of Co-ordination

FIDA could not function properly because it faced the major problem of co-ordination of the institutions involved in industrialization.

With the formation of CIC, instead of having to deal with 7 ministries and a score of government departments, 2 ministries at most will be concerned - the Treasury and Commerce and Industry - with the CIC co-operating through. Thus the CIC is more of a co-ordinating committee with sufficient powers to make on the spot decisions without red-tapism, which was another inherent defect in FIDA. This radical change is typified by the CIC's intention that having identified an industry fit for pioneer venture, most of the incentives, including the amount of protection will be announced simultaneously.

6. The Role of the Private Sector

The private sector before the establishment of CIC has been playing a negative role as it never became a pressure group in the FIDA Council or outside the organisation to have any positive influence in the government's industrial programmes.

But now the private sector forms an advisory panel to the Committee. This 19-member private sector advisory panel was appointed

⁴Malay Mail, 1st July 1969, p.8.

by CIC representing a cross-section of the business and industrial communities. Thus now for the first time the government is to have the continuous assistance of an advisory panel. The Chairman of CIC says that "the government will work closely with the panel, seek its advice and assistance as often as is necessary, and generally regard the private sector as an important partner in the economic development of this country".⁵

In addition the Malaysian Manufacturers Association plans to form a Confederation of Industries and the deputy chairman of CIC says that he agreed in principle with the formation of such a body and added "the government will have a counterpart in the private sector and will be able to benefit by it."⁶

7. The Question of Power and Control

In the case of FIDA it was not an effective organisation because it was very far from the centre of power; had no or very little control over resources to be dynamic; and, it was more a competitive agency and had no power to direct the activities of other organisations and agencies.

The CIC on the other hand, is very close to the centre of power as it is directly responsible to the NOC and has the power given to it to direct the activities of all agencies and even that of FIDA as CIC at the present 'sits' on top of FIDA and FIDA's activities are directed to a certain extent by this committee. One government official remarked that at the moment FIDA is in a "state of flux and whether CIC will emerge with FIDA or remain later as an advisory body to FIDA depends on time and progress in the government's new economic policy."

With the CIC taking over some of the functions from FIDA, such as the granting of pioneer certificates; approving applications for setting up of companies, taking advice from the private sector advisory panel, trying to engage public relations consultants to secure foreign investment; and, other powers given to the committee as mentioned earlier in this chapter, it clearly indicates that FIDA has lost its cardinal functions to promote and co-ordinate industrial development and to advise the Minister of Commerce and Industry in the formulation of policies. Therefore, FIDA as a statutory body set up by legislation has lost the mandate given to it by the FIDA (Incorporation) Act 1965. But the Minister of Commerce and Industry still states that, "FIDA still remains the Government's chosen instrument for co-ordinating industrial development as well as the Contact Centre for investors and industrialists in Malaysia."⁷

Eventhough the creation of the CIC has been welcomed by many

⁵Straits Times, 26th June 1969.

⁶Straits Times, 29th July 1969.

⁷Malaysian Industrial Digest, Vol.2, No.2, 1969, p.7.

in the private and public sectors, as it can guide, it can smoothen the way and reduce immeasurably the time lag, that is, all the red-tape can be cut and the states can be coerced into helping in the industrial programme of the central government, the major drawback of the CIC is that "it cannot take all risk out of investment or make unviable industry pay."⁸

Therefore, in conclusion it can be said that the CIC chief values are its ability to take the initiative to invite investment and its importance in co-ordinating all organisations dealing with industrial development. According to one writer "the termination of the committee after the Emergency can only be a regressive move."⁹ But the CIC so far is concentrating its efforts in 4 aspects of its work. They are:

- 1) Approvals for industrial projects;
- 2) Specific Investment Promotion Programme;
- 3) Industrial Development Strategy; and
- 4) Private Sector Advisory Panel to the CIC.

⁸ Straits Times, 28th June 1969.

⁹ Sunday Mail, 22nd June, 1969, p.5.

CHAPTER V

FACILITATING FACTORS FOR INDUSTRIALIZATION

Industrialization is a dependent factor and the desirability and indeed the urgency for greater industrialization in underdeveloped countries has been recognised not only by these countries themselves, but also by the industrialized countries, all of whom have agreed that "poverty anywhere constitutes a danger to prosperity everywhere."¹ Thus the aim of this chapter is to expose some of the factors that facilitate industrialization.

The facilitating factors can be in the form of basic requirement for industry and aids for industry. In the developing countries the vital prerequisite factor is the extent of political stability and political viability of the political system. Without political stability there cannot be any industrial development, as these countries that depend very much on the foreign industrialists for investment, should demonstrate some form of confidence in the minds of this group of people to invest in these countries. This is particularly so in Malaysia where racial conflict between various races can lead to political instability resulting in either static or declining industrial development. The static condition can come about in 2 ways. Firstly, the industrialists who have already invested in this country may abandon their programme of industrial expansion and secondly many potential industrialists will be discouraged to invest in Malaysia. Another possibility is the withdrawal of foreign capital which also includes the know-how if there is degenerating political instability, as it happened in Indonesia before the 1965 Coup. Thus, realising the consequences of the May disturbances the government sent a high-ranking government official on a 24-nations tour to explain to the foreign investors and potential industrial financiers about the recent racial disturbances, thus playing the role of "image repairer".

The major part of industrial development investment, which usually must be done largely if not entirely by government is the provision of the basic facilities or infrastructure, which is another essential prerequisite for industrial development.

Another facilitating non-economic factor but nevertheless an important element in industrial development is that the attitudes, customs, traditions and social institutions that are hostile to industrial development has to be re-orientated and "a high sense of purposefulness must be injected to all participants in the industrial development

¹The International Labour Code, Vol. I, printed by "La Tribune Geneve", Geneva, Switzerland, 1952.

process - politicians, civil servants, workers and managers."²

The Basic Requirements for Industry

1. Markets

One of the main difficulties facing industrial development is the relatively small size of the Malaysian market which is accentuated to a striking degree by the unequal distribution of income.

The government as a matter of policy supports the local market but at the same time it would not appear likely, at least for some time to come, that Malaysian producers would be able to enter or develop foreign markets for the products of industry, except in the case of goods based on those local raw materials for which Malaysia has a natural comparative advantage. In terms of potential market the manufacturing undertaking can develop only to the extent that the agricultural producer by growing more and earning a higher income (which is determined by the efficiency of output in agriculture and by world prices for primary exports) is able to buy the products of industry. Thus "although industrial development analysis is important, the government should seek to make the fullest possible use of the market as a means to direct industrial investments to various industries and individual projects."³

Another important factor about the market is that, "the size of the market limits the division of labour and the inducement to invest and is therefore a further determinanat of the character of industrial development."⁴

2. Raw Materials

In terms of raw materials Malaysia does not possess the mineral resources basic to heavy industry such as iron-ore in quantities and locations which makes it economically usable with present techniques.

3. Power and Fuel

Of all the physical factors necessary to the development of industry, electric power is one of the most important and no real growth is possible if this vital factor is not available. Power must be available both in the quantities required as well as where and when required at economic rates and on a continuous basis.

On the other hand, with the object of effecting saving in fuel costs, the government some time back consented for the establishment of a refinery in Malaysia.

² Malay Mail, 1st July 1969.

³ Bryce, Murray D., op.cit., pp.64-65.

⁴ Mountjoy, B. Alan, Industrialization and Underdeveloped Countries, Hutchinson and Co. (Publishers) Ltd., 1966, p.95.

4. Land

Land is an important question in Malaysia as the various State governments also have a great say in this matter. The opening up of industrial estates is a new dimension and in Malaysia there are a few prominent industrial sites - Petaling Jaya, Batu Tiga, Prai and others. The opening up of more land in various states can serve as a facilitating factor if they are near town centres.

5. Sponsorship

Probably the most important in industrial development is the sponsor or entrepreneur who undertakes the promotion, organisation and operation of an enterprise, and who on his own or with others, undertakes the financial risk of the enterprise. Malaysia has in common with other pre-industrial countries, suffers from a shortage of entrepreneurs as there is relatively little industry within the country from which to draw. Therefore practical steps must be taken by the government in the initial stages of the industrialization programme to assist and encourage the private sector, although it involves considerable effort and expense, it will be a facilitating factor.

In under-developed countries the government's role as a direct participant in industrial enterprise tends to be a large one, based upon the requirements and needs of the economy and due to the urgency of gaining some momentum in the process of industrialization.

In the case of foreign sponsorship it makes two important contribution to industry in Malaysia - know-how and capital. Since local industrialists are lacking in many aspects of know-how, including that of specialized processes as well as in the general know-how of management, special inducements should be given to these groups of people to establish joint-ventures with the local industrialists. Thus, since foreign capital is invited into the industrial field it should be given every possible facility needed to assist in the establishment of its industry, advice as to location, ability to bring in technical personnel, authority to export profits and capital without much restrictions.

6. Capital

To be of real assistance to industrial development the government must concern itself not only with capital formation but also with the granting of loans and other forms of financial assistance which new industry requires as "decisions as to the appropriate capital intensity in the industrialization of an under-developed country are of fundamental importance, since they have notable effects upon the character and pattern of industrial development."⁵ This is often achieved through the establishment of public finance corporation, which are owned and operated by the government alone or jointly by the government and the private sector, one such corporation is MIDF. One economist expressed the view that the States in Malaysia should be given some control over capital for

⁵Ibid., p.85.

industrial development, so that states will compete with each other for industrial progress in their respective states which will result in overall industrial development, thus facilitating industrial development in general.

7. Technique

Another factor of production is technique or "know-how". This know-how falls into 2 groups - knowledge of general or specific process and managerial know-how. The government should try to get more of the valuable technical assistance through the United Nations and the Specialized Agencies which will make valuable contribution in the establishment of technical institutions which would turn out people with industrial background to man the various industries and this can be a facilitating factor.

In addition, in order to increase the supply of potential managers industry should adopt the policy of training and providing special on-the-job and academic facilities for the members of its staff, having in mind not the development of its industry, but also the needs of the country for more and more industrial development. Assistance in the process of training managers can also be given through arranging seminars between groups of managerial personnel to discuss their common problems in addition to those given by the Ministry of Commerce and Industry and Malayan Institute of Scientific and Industrial Research. This type of programme is widespread in developed countries where it has been found profitable to adopt a policy of inter-company exchange of ideas at the technical level.

8. Labour

There must be various industrial training institutions in the country to produce skilled labour force to man the various industries for it is not enough to have the assurance that a number of workers are available to support a programme of industrial development but it is also necessary to ensure that adequate numbers of skilled workers can be found in the various crafts and at the various level required for "the dearth of skilled labour is one very handicap, imposing limits not simply on types of industrial activity but also upon methods of working and the kinds of machinery introduced."⁶

The government's new policy is of promoting the development of labour intensive industries calls for training of workers on on-the-job training to give the worker "a sound basis of theoretical and practical knowledge, avoiding excessive and premature specialization enabling him to acquire a wide grasp of the theoretical principles underlying the practice of his occupation."⁷ In addition any theoretical training, even if it includes some workshop practice given in technical colleges,

⁶ Mountjoy, Allan J., ibid., p.89

⁷ International Labour Code, op.cit., Article 68, p.82.

it needs to be supplemented by training in the plant, especially where a high degree of skill is required.

Another crucial element of labour is a good labour-management relations for it contributes to industrial stability. This becomes a facilitating factor for frequent dislocations by industrial disputes can be avoided.

9. Management

Low standards of management and lack of staff specialists in various management techniques are the most important causes of low productivity in underdeveloped countries. Then the facilitating factor would be to provide more supervisory work force, management personnel and entrepreneurship either locally trained or foreign trained to assist in the industrial development programmes. In addition, the Malaysian Institute of Management (MIM) which represents a reservoir of trained and experienced business and industrial experts well versed in general and functional management can make a necessary contribution in facilitating industrialization as Dr Kanapathy says, "it is the human resources that shape and control the material resources in industrial development".

Aids to Industry

In addition to the basic requirement for industry, there are many aids and services which can provide encourage/or can facilitate /ment industrial growth.

1. Statement of Policy

The statement of policy can help to make the government's position clear in industrial development for such statements are of great value in providing the private sector with the knowledge of its position in the field of industrial development, the contribution which it is expected to make, the rules within which it will operate and the assistance which it can expect to obtain.

The policies provide prospective industrialists with the assurance needed to give them confidence and provide public servants with guidance on which to base their action.

2. Protection Against Foreign Competition

Many industrialists who want to invest in this country demand some sort of protection from the government. To be a facilitating factor the government established the Tariff Advisory Board (TAB) which provides products of local manufacturers some protection in comparison with foreign imported products. In addition the Customs Ordinance 1959 provides the government with the power to protect local industries from dumping measures of other countries.

There are also other aspects of specific measures of protection or assistance, the most common form of assistance is to permit the entry of the raw materials, machinery and equipment needed by the industry free of duty or at nominal rates of duty.

3. Establishment of Standards

The importance of maintaining some control over the quality of goods particularly from the point of view of retaining the confidence of the foreign buyer and of overcoming consumer resistance to locally produced articles has resulted in the creation of the Standards Institute of Malaysia or SIM. It is important that the specification, once established should be accepted by all government departments concerned and by the trade, in order that the manufacturer entering the market should not have to satisfy one after the other, a number of different departments which may be interested in his products. For this purpose SIM should establish advisory committees consisting of representatives from the main consumers and manufacturers of the product concerned, whether government or private, to assist it in drawing up the specification which have to be met. This will induce industrial development as there will not be a great waste of time to the manufacturer and considerable delay before he could secure orders.

4. Assistance in Marketing

While the major responsibility to sell the product in the market rests with the producer, there are ways in which the government's services could help to launch a product, quite apart from the measures of protection against foreign competition. Market surveys conducted by government, is one of the services. A survey of this nature should be undertaken in principle, before a new manufacturing undertaking is set up in any particular field. The data thus collected should form part of the advice which the government should be in a position to offer to a prospective manufacturer. Therefore such surveys should be carried out as regards home market by FIDA if possible with the assistance of the Department of Statistics. The information collected should be placed at the disposal of all concerned particularly the potential industrialists.

The government to some extent can advertise in the case of goods manufactured for the export market. This can be done by trade bulletins circulated to those concerned by the Trade Commissioners or other diplomatic representatives abroad, and by participation in trade fairs and exhibitions, to the cost of which the government usually contributes. Finally, it is a normal part of the duties of the government representatives abroad to assist manufacturers through their contacts in finding agents willing to handle their products abroad.

Every attempt should be made to reduce the risk of the local entrepreneur and the responsibility for this falls largely on the government. Thus, insofar as it is possible and practicable, the government should take whatever measures necessary to provide as many services as possible which will serve to remove some of the obstacles to development. The government should be called upon to provide a broad

range of services to industry, including the supplying of economic and statistical data, research facilities, engineering and other consultative services as well as the various measures and services which can help to promote industrial development for in industrially advanced countries the industrialist has available to him many services afforded by public and private institutions which provide him with many of the answers he requires.

RECOMMENDATIONS

In conclusion, the facilitating factors for industrialization are many and varied. The factors of overriding importance are political stability and viability in the nation, the willingness of the people to accept change from purely agricultural to agro-industry, and the government's position in providing most of the prerequisites for industrialization. The other facilitating factors on the whole can be divided into, basic requirements for industry and aids to industry.

by an Industrial Development Board which shall be established by an Act of Parliament. The Board shall be headed by a Co-ordinating Committee. The purpose of this Board shall be to elaborate on these recommendations.

Before elaborating on the recommendations, it should be mentioned that the recommendations made do not imply, explicitly or implicitly that private enterprises should be replaced. Rather these recommendations are suggestive of the significant and necessary role of government in the establishment of an industrial base, found to be completely wanting in Malaya to stimulate and facilitate participation of particularly inexperienced local entrepreneurs. But, with the entering of industry some of these services provided by the government during the pre-industrial stage should necessarily be taken over by private industrial and management consultant firms.

The Department of Industries

The principal responsibility for industrial development should be vested in the Department of Industries and that it be granted the necessary administrative flexibility to carry out its functions. The main functions of the Department can be grouped under 3 headings:

- a) promotion of industry;
- b) services to individual industries; and
- c) general functions such as research, publicity and liaison.

A. Promotion of Industry

Under this heading the functions of the department will include the following:

- 1) Relaying information for development - The department should be constantly on the look out for possible new industries and the most preferable will be those making the best use of existing resources. Generally, special consideration should be given to industries which do not need much

CHAPTER VI

RECOMMENDATIONS

In many under-developed countries considerable use has been made of the development corporation to plan, stimulate and administer broad or specific programmes of industrial development. But I feel that the task is so great and so vital to this nation, that it could best be carried out by a government department, Department of Industries, assisted by an Industrial Development Board (IDB), consisting of representatives of government departments and of the private sector and in turn aided by a Co-ordinating Committee. The purpose of this chapter will be to elaborate on these recommendations.

Before elaborating on the recommendations, the reader is cautioned that the recommendations made do not imply, either explicitly or implicitly that private enterprise should be replaced. But, rather these recommendations are suggestive of the significant and perhaps necessary role of government in the establishment of an industrial base, found to be completely wanting in Malaysia to stimulate and facilitate participation of particularly inexperienced local entrepreneurs. But, with the maturing of industry some of these services provided by the government during the pre-industrial stage should necessarily be taken over by private industrial and management consultant firms.

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- a) promotion of industry;
- b) services to individual industries; and
- c) general functions such as research, publicity and liaison.

A. Promotion of Industry

Under this heading the functions of the department will include the following:

- 1) Selecting industries for development - The department should be constantly on the look out for possible new industries and the most preferable will be those making the best use of existing resources. Generally, special consideration should be given to industries which do not need much

capital, are not too complex and are labour-intensive. The new industrial development strategy of the government, since June 1969 is to give top priority to industries which are labour-intensive rather than large scale mechanisation. But whether this will be productive to industrial growth and stability will be another aspect of industrial development.

- 2) Investigating feasibility - The department will have to consider the potential markets, the extent of competition, both actual and potential, the availability of raw materials, the nature of the process and some indication of the equipment needed and of its cost. Suggestions might be made regarding location and consideration should be given to the question of whether the industry should be best operated as a co-operative enterprise, by private enterprise or should be government sponsored. At present in Malaysia, FIDA is the major organisation that conducts feasibility studies or pre-investment studies. In addition, some commercial banks carry out such feasibility surveys for their purpose, namely to safe-guard the money they loan out to investors and to attract additional investors to go through their banks. On the whole, investigating feasibility has been neglected.
- 3) Finding sponsors - If the Industrial Development Board (IDB) considers that the suggestion is worth pursuing, the department has to seek a sponsor for the industry and adequate publicity should be given to the suggestion either through periodicals or press, mentioning the views of the IDB. In Malaysia at the moment no assistance is given by the government in this field and it is up to the private industrialists to go into any field of industry.
- 4) Financial Assistance - The department should assist the sponsor to get a loan and also act as his counsel before the MIDF and should consider the desirability of government participation. The situation that exists today is that once an industrialist gets the "go-ahead" or pioneer status, he applies to MIDF or any other financial institution to get the necessary finance on his own initiative. So far there has not been any government participation in industry even though the new industrial policy states that the government if necessary will participate in the establishment of industries.
- 5) Finding location - The department should assist the sponsor in acquiring the land in the federation or in any of the industrial sites as land is a state matter in Malaysia and should organise the establishment of industrial estates. FIDA at present cannot effectively promote the establishment of industrial sites as it runs into difficulty with the various state governments to

obtain land for such sites at the best location. The CIC, I feel, can cope with this matter more effectively as it is given sweeping powers by the NOC (National Operations Council). I strongly submit that the Department of Industries should take the responsibility for the development of industrial estates and this should come under the federal list, as one of the functions of the central government.

- 6) Obtaining public utility services - Usually most of the industrial estates are provided with infrastructure and the department should make representations on behalf of the sponsor to the authorities concerned with a view to ensuring that normal or special rates charges are made for power, water or rail connections with regard to industrial activity. FIDA does not perform this function but the government provides infrastructure and other corporations charge special rates for industrial purposes.
- 7) Protecting against foreign competition - If a new industry is to be given protection the department should raise the question before the IDB and suggest the appropriate protection and refer the matter to the Tariff Advisory Board (TAB). Prior to June 1969, the industrialist himself has to approach the TAB in regard to the tariff protection measures required by him. But now at least it has been put on paper that the government will take the initiative.

B. Service to Industry

The Department of Industries should provide consultative and other services that may take the form of referring a problem to another government department or to a non-governmental agency. The services which the Department might render to individual industries may include:

- 1) Market surveys - The department should help the new industry in estimating the present and potential market for the product in collaboration if possible with the Ministry of Commerce and the various Chambers of Commerce and other trade associations.
- 2) Suggesting additional products or new product designs - The contacts which the staff of the department will have and its access to information regarding markets and products could make it possible for it to suggest new lines to existing firms, particularly to small manufacturers.
- 3) Advice on equipment and plant layout - The department should offer to small-scale industry the services that are offered by industrial consultants and should provide advice on factory construction and good plant layout.

- 4) Providing advice on organisation and management - The department should make available particularly to small-scale industry advice on management problems, including the planning and the distribution of work. The flow of materials and other methods of increasing productivity.
- 5) Advice on marketing - The department should be able to advise industry on the best methods of selling its products. The problem of suitable standards of quality should be referred to the Standards Institute of Malaysia (SIM).

The services to industry in the following fields: market surveys, suggesting additional products or new product designs, advice on equipment and plant layout, providing advice on organisation and management and advice on marketing are completely lacking in the present industrial set up and in addition FIDA does not have the necessary expertise and resources to provide them.

C. General Functions

This includes the services to industry, and generally the carrying out of such functions would play a significant part in the removal of obstacles in industrialization and serve to accelerate its development. The functions are as follows:

- 1) Recording progress - This is mainly the recording of the extent of progress and the development of industry. The department should view this periodically to advise prospective entrepreneurs on their possibilities. It should collate information on new and proposed industrial undertaking and in addition watch the position as regards to availability of factors of production and report on any difficulties which are likely to arise. The first survey of industrial trends by FIDA was very unsatisfactory as less than half of the member firms of the Federation of Malaysian Manufacturers participated and small firms were less co-operative. This resulted in the lack of solid foundation to make conclusions on the progress of industrial development in the nation.
- 2) Policy Recommendations - It will be the duty of the department to collect material to assist in the formulation of policy on industry by the Minister. At present, policies are formulated on the basis of inadequate information provided by FIDA. As a result of this, the government comes out at intervals of time to provide adjustments of the various policies. The reason for the establishment of the CIC was mainly because industrial development was not progressing well as the government expected it on FIDA's initiative.
- 3) Wider distribution of industry - Studying the economic

possibility of wider distribution of industry requires the department to be in constant touch with the situation in all parts of the country and to work with local groups in stimulating local industries. The industrial policy so far has been to promote industrialization. But this resulted in industries booming in the urban areas thus resulting in concentration of industries. But with the new policy of rural industrialization, it can be best done by a Department of Industries as rural development was done quite successfully by the Ministry of National and Rural Development.

- 4) Industrial visits - The officers of the department should visit many industries to find out the views of industrialists and their problems and should help in finding solutions to the problems raised, offer suggestions and try to promote industrial expansion.
- 5) Overcoming difficulties facing industry - The department should keep under review the difficulties which stand in the way of industrial development such as shortages of any factor of production, including manpower, and should seek to work out ways for overcoming them.
- 6) Industrial conferences - The department should organise industrial conferences so that such conferences would serve the dual purpose of providing valuable information to government in carrying out its programme, and stimulating greater interest in industrial development.
- 7) Library and periodicals - The department should maintain a library and documentation service for industry and prepare pamphlets on industrial subjects and periodicals.
- 8) Research - The department should itself carry out research on economic conditions affecting industrial development and on problems of industrial organisation. It should recommend some research to be done on certain fields by the Malaysian Institute of Scientific and Industrial Research and it should keep itself informed on the progress achieved by these agencies and arrange for a periodic review of the position regarding research projects to be placed before the Industrial Development Board.
- 9) Liaison - The department should keep in touch with other departments and agencies whose contribution is needed for industrial development. This is essential to carry out effectively these tasks which are essential to the fulfilment of the government's industrial policy.
- 10) Contacts with other countries - The department should keep in touch with industrial developments in other countries. This is with the view to benefitting by their experience

and exchange ideas regarding the organization of industry and programmes for industrial development especially with the countries in Asia.

- 11) Servicing the IDB and the co-ordinating committee on industrial development - The department of industries should provide the Secretariat for these 2 bodies, and must ensure that they are kept fully informed on all matters of interest by carefully prepared documents. The Secretariat must also see to it that the necessary action is taken on the recommendations of these bodies.

The present industrial set-up which also includes FIDA has neglected the provision of facilities for overcoming difficulties facing industry; never conducted any industrial conferences except the Malaysian Institute of Management (MIM) which conducts lectures, seminars and talks by visiting and local experts in the field of management; no wide scale research was done on conditions affecting industrial development and industrial organisation; there is little liaison between institutions and departments; and finally there is very little contact at the moment with other countries on industrial development.

In carrying out its functions of assistance to industry and in working closely with industry as well as through the IDB, the Department of Industries will perform the very useful function of interpreting the problems and policies of the government to industry. Generally, this acts as an important co-ordinating force in the industrial field. In carrying out its functions the department need the support, active co-operation and advice of the general business community, as well as other governmental agencies whose activities affect directly or indirectly the development of industry. For this purpose of "team-work", the IDB should be established to operate in an advisory capacity to the government, through the Department of Industries.

The Industrial Development Board(IDB)

I strongly feel that FIDA can be brought down to the status of the IDB when a Department of Industries is established according to my recommendations. Eventhough this will bring about some dislocation in the present industrial machinery initially, this move can be a productive one in the long-run, considering the new industrial development strategy of the government.

The composition of the IDB should include at least accredited representatives from the following government departments: Industries, National and Rural Development, Commerce, Lands and Mines, Agriculture, Finance, Labour, EPU and DAU.

The non-governmental representatives on the Board should be nominated by the bodies like the various Chambers of Commerce, Malaysian Manufacturers Association, Employers and Workers organisations. The appointment of these representatives can be left to the Minister of Industries. In addition, the Malaysian Institute of Scientific and

Industrial Research, Standards Institute of Malaysia or (SIM), TAB, MIDF, National Production Centre or NPC etc. should be represented in the Board.

The functions of the Board shall include the following:

- 1) Suggesting possible new industries for further investigation by the Department of Industries and discussing their feasibility. At present FIDA on its own conducts pre-investment studies and identifies a number of industries and there is no further investigation into these studies and investors and industrialists will just have to contact FIDA if they are interested in any of the projects identified. This will not promote uniformity of industrial development.
- 2) Reviewing new proposals for industries presented by the Department.
- 3) Considering the most effective means of promoting such industries, the type of sponsorship and etc. This function at the moment is done by FIDA and it is up to the private sector to make its investment decisions in the context of the free interplay of market forces.
- 4) Reviewing government policy on industrial development and making recommendations with regard to such policy. At the moment FIDA only provides the incentives that is provided by the government and does not involve in reviewing the government's policy on industrial development, but the CIC has been given power to review the current policies and programmes of industrial development.
- 5) Suggesting subjects on which research is desirable.
- 6) Reviewing at intervals the progress of industrial development in Malaysia.
- 7) Reviewing, when necessary, the position as regards the availability of the various factors of production.
- 8) Examining reports relevant to industrial development submitted to the government by international organisations and considering the follow up which might be given to the suggestions contained therein.
- 9) Finally, reviewing and considering applications for industrial development loans and making recommendations to the Minister with respect thereto.

In considering the organisational aspect of the Board, the Minister of Industries should act as chairman of the Board. A full-time Secretary should be made available by the Department to the IDB, and he represents the co-ordinating link but he should be considered primarily

as the officer of the Board itself, in order that he may have the necessary independence to serve the IDB as a whole.

Co-ordinating Committee

Since in industrial development a number of different government departments are involved, a co-ordinating committee on industrial development should be set up, consisting of senior officials of the government departments concerned, to advise Ministers on policy with regard to industrial development, and to achieve co-ordination between the various ministries and departments whose activities have a bearing on industrial development. In addition the government should give the departments involved a directive enjoining them to follow, insofar, as each is concerned, the government's policy on industrial development and to take necessary action to implement it.

The reasons for the establishment of this co-ordinating committee are as follows:

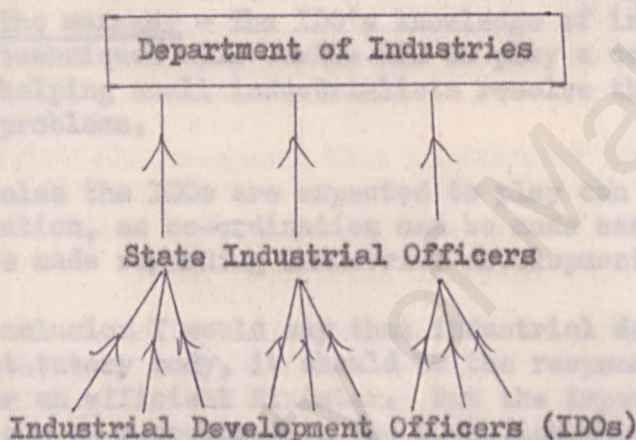
- 1) The normal procedure of referring from one department to another, often through the respective Ministers are apt to be too slow to ensure that action is taken more or less at the same time in a number of different but related fields;
- 2) There are sometimes differences of opinion between departments as to the action to be taken which the officers concerned may avoid bringing to a head;
- 3) It is desirable, both from a constitutional and a political point of view, the government members who meet with the representatives of non-governmental organisations in the IDB should speak with one voice, and not raise on that Board any problems of inter-departmental demarcation or differences of opinion; and
- 4) The government members may wish to discuss certain proposals which have arisen in the IDB among themselves, in terms of the departmental action to be taken and the final suggestions to be brought to the attention of the Ministers.

Therefore, the functions of the Committee would be to consider the action to be taken by various government departments to promote or assist industry, to assist in formulating issues for consideration by Ministers, to prepare for discussion in the IDB and to follow them up.

There was actually no co-ordinating committee of any sort till the CIC was formed this year, even though in its terms of reference (chapter IV) it is not expected to perform the roles that I have outlined as reasons for the establishment of this Co-ordinating Committee.

In Malaysia we have industrial estates and in addition it is the policy of the government to spread industry to every state and to the

rural parts of the country. To this extent the co-ordination of industrial activity and the expedition of the administrative machinery will become the major problem area. To solve this the Department of Industries can have a State Industrial Officer in each state and below in each industrial estate or district an Industrial Development Officer (IDO). The State Industrial Officer should be empowered to have power over the various functional and technical departments in his state regarding industrial development and he should assume the supreme co-ordinating role in industrial development in his state and should be made responsible to the Department regarding administration of industrial activity in the state. To achieve this he should get the full co-operation of the industrial development officers in his state and these officers should be made responsible to him.



On the other hand, IDOs will occupy the position similar to that of the District Officers. In this capacity some of the roles the IDO is expected to play may be stated as follows:

- 1) The Planner - planning at the district level is gaining increasing importance both in industry and in agriculture thus the IDO will need to learn the science of planning to be able to develop the district's industrial potential in the optimum time and integrate it with national development.
- 2) The Co-ordinator - the IDO should co-ordinate the activities of different departments and organisations regarding industrial activity at the district or state level and should report the progress or problems he faces to the State Industrial Officer so that he, with the powers given to him, can arrive at quick decisions.
- 3) The channel of communication - providing information to clientele is important in itself but the IDO has the equally important role of conveying problems of this

clientele from field and factory to research and consultancy divisions in the Department of Industries for answers. He thus becomes a two-way communication channel.

- 4) The change agent - industrialization is a process that involves a radical educational change. In this respect the IDO can expose to the people the possibilities in industry, the possible lines of industry, assist in evaluating the prospects of specific industries and provide guidance and support in the actual setting up of the factories. A local economist, Dr. Kanapathy says that "attitudes, customs, traditions and social institutions that are hostile to economic progress have to change before any industrial growth can take place."
- 5) The manager - The IDO's knowledge of industrial management techniques will enable him to play a consultant's role in helping small industrialists resolve their managerial problems.

The roles the IDOs are expected to play can provide an impetus to industrialization, as co-ordination can be made easier and faster decisions can be made regarding industrial development.

In conclusion I would say that industrial development cannot be achieved by a statutory body, it should be the responsibility of a department under an efficient Minister. But the importance of the private sector can be recognised in the establishment of the Industrial Development Board and co-ordination of various departments and agencies can be made fruitful by the establishment of a co-ordinating committee.

- a) how the internal organizational structure of FIDA works;
- b) what are the defects in FIDA's feasibility studies and how to improve on it;
- c) the approach for the establishment of the Department of Industries and the elimination of FIDA.

¹ Malay Mail, 1st July 1969.

CONCLUSION

In my conclusion I would like to recapitulate what I have stated and to suggest certain areas for deeper studies.

My study exposed that FIDA as an organisation is very inefficient, there is limited co-ordination between FIDA and other departments and institutions, there is duplication of work in FIDA and in the IDD (Industrial Development Division of the Ministry of Commerce and Industry) and there is no clear-cut demarcation of functions and responsibilities between the various institutions as some of the functions of FIDA are performed by other agencies too. In addition the private sector is not effectively represented in FIDA and there is more governmental control of FIDA, even though it is a statutory body.

The writer also suggests that in contrast to the CIC, FIDA has little powers and CIC is more advantageous for greater industrial development and of course there must be present the facilitating factors for industrial growth.

In my final analysis, I recommended the establishment of a Department of Industries, so that industrial development can be the full responsibility of the government and not a statutory body - FIDA; the establishment of an Industrial Development Board (IDB) consisting of members from the public and private sectors, and, a Co-ordinating Committee comprising of the affected ministries and institutions to co-ordinate and facilitate greater industrial development. In addition, the creation of posts like State Industrial Officer and Industrial Development Officer can promote more co-ordination between the various states and the federal Department of Industries and this will facilitate planning industrial development on a national scale.

In the final analysis, I would suggest the following areas for deeper studies:

- a) how the internal organisational structure of FIDA works;
- b) what are the defects in FIDA's feasibility studies and how to improve on it; and
- c) the arguments for the establishment of the Department of Industries and the elimination of FIDA.

APPENDIX I

QUESTIONNAIRE DISTRIBUTED TO ADMINISTRATIVE
OFFICIALS WITHIN FIDA

1. The first Annual Report of FIDA, dated March-December 1967 has an organisation chart on Page 6:
 - a) Does the chart give an outsider the actual functioning of the Organisation?
 - b) Why has the DAU recommended the restructuring of FIDA? Do you consider the restructuring more conducive to the proper functioning of the Organisation?
 - c) What in your opinion do you consider the major elements or components in the Organisation?
2.
 - a) Why is the word 'Authority' used in the title of FIDA?
 - b) Why was the Authority not made a government department?
3. To what extent FIDA is a semi-autonomous body?
4. The FIDA (Incorporation) Act 1965 lists out the functions of FIDA:
 - a) But can you please elaborate what is the SPECIFIC purpose of the Organisation?
 - b) Can you list to me the major policies of the Authority since there are a number of bodies involved in industrialization?
 - c) What are the policy areas you are engaged in, in executing your functions in the administrative set-up?
 - d) Are these policies made public?
5. In what ways does the government CONTROL the activities of FIDA?
6.
 - a) What are the major agencies other than the IDD with which FIDA has direct relationship?
 - b) What is the system of liaison between FIDA and other government agencies?
 - c) In particular, what is the network of relationship between the EPU and FIDA, as FIDA shares with the EPU the principal responsibility for planning the nation's overall approach to industrial development?

13. d) In what way FIDA helps MARA, a corporate body, entrusted with the responsibility to get the bumiputras to participate more actively in commerce and industry in Malaysia?
7. a) To what extent the government representatives in FIDA provide liaison in order to enable FIDA to utilise government resources for its programmes?
- b) Do they play a dominant role in policy formulation?
- Reply: "no comment"
8. What are the discretionary powers of the Director?
- Reply: "no comment"
9. a) To what extent does FIDA interact with the private sector? and, in which particular respect it interacts?
- Reply: "no comment"
- b) What is the main task of the Division of Project Promotion and Public relationship?
- Reply: "no comment"
10. In what way and to what extent FIDA plays the role of 'match-maker' of local and foreign investors?
11. Dr Kanapathy the economic adviser to the UMBC, once called for the AMALGAMATION of all bodies connected with industrialization - (FIDA, Standards Institute of Malaysia, MIDF, IDD and TAB):
- a) As an administrator, what is your opinion regarding the above suggestion?
- Reply: "no comment"
- b) What are the advantages, disadvantages and feasibility?
- c) What might be the sources of resistance to this idea and on what grounds?
12. Since our economic ideology is private enterprise especially in industrialization:
- a) To what extent do you feel that the Authority follows a policy of COOPTATION of private elements into the Organisation?
- b) Since, the Authority's top body consists of representatives from the private sector, do they participate in policy formulation? And to what extent?
- c) To what extent public participation (i.e. both foreign and local industrialists) is an important factor in policy formulation of FIDA?

13. In what way co-operation and co-ordination is maintained between the Federal and State governments in industrial development? What is the role of FIDA in this context?

14. How does FIDA process pioneer applications?

15. a) What are the critical problem areas you face in carrying out your functions?

Reply: "no comment"

b) What are the problems you encounter as an administrator in FIDA

Reply: "no comment"

APPENDIX II

QUESTIONNAIRE - LOCAL COMPANIES

1. a) Have you had any relationship with FIDA?
b) What is the nature of the contact?
2. a) Has FIDA helped you in your industrial activity?
In what manner?
b) In what way FIDA helped your company in the setting up of your industry?
3. Do you consider the existence of multiplicity of institutions in the industrial field a major problem an industrialist confronts? What are your suggestions?
4. By whom are you represented in the FIDA Council? Do you feel that there must be more local private representation in the Council? If yes, why and in what manner?
5. a) What do you feel about the Investment Incentive Act?
b) Were you in any way consulted in the formulation of the Act?
6. In your view are the local companies given sufficient opportunities to establish new operations when compared to the foreign industrialists, by FIDA? What is the nature of the opportunities provided and in what manner?
7. Do you find the 'Joint-ventures' role played by FIDA very encouraging for industrial development? And why?
8. What are the other institutions with which you have any relationship in your industrial activity? Is there any overlapping?
9. In your opinion are there any defects in the organisational set-up of FIDA? What are your suggestions for improving the set-up?
10. Can FIDA help you more in your industrial expansion programmes? Why and how?
11. a) Are you of the opinion that the private sector is adequately represented in the FIDA Council?
b) If not what changes will you recommend?

9. a) Would you wish to have an opportunity to make known your views regarding problems of your industrial programme to the FIDA Council?

b) What are your recommendations for improving consultation between FIDA Council and the industrialists?

10. If you have knowledge in other countries, then what is your opinion regarding the comparative assets and defects of FIDA?

1. a) Have you had any relationship with FIDA?

b) What is the nature of the contact?

2. a) Has FIDA helped you in your industrial activity?
In what manner?

b) In what way FIDA helped your company in the setting up of your industry?

3. a) Does FIDA impose any restrictions on your industrial activity?
If so in what manner?

4. As a semi-government authority FIDA has been viewed as a help and a hindrance to the private sector:

a) In your experience what are the aspects where FIDA has been the positive factor in private sector development?

b) What are the aspects when FIDA has been the negative factor in private sector development?

5. a) As an industrialist, what are the problems you encountered to invest in this country?

b) Do you consider the existence of multiplicity of institutions in the industrial field a major problem an industrialist confronts?
What are your suggestions?

6. a) If your industry is a pioneer industry, how long did it take you to get pioneer status?

b) What is your opinion about the Investment Incentive Act?

c) Were you in any way consulted in the formulation of this Act?

7. Can FIDA help you more in your industrial expansion programme?
Why and how?

8. a) Are you of the opinion that the private sector is adequately represented in the FIDA Council?

b) If not what changes will you recommend?

9. a) Would you wish to have an opportunity to make known your views regarding problems of your industrial programme to the FIDA Council?
- b) What are your recommendations for improving consultation between FIDA Council and the industrialists?
10. If you have industrial development experience or knowledge in other countries, then what is your opinion regarding the comparative assets and defects of FIDA?

No. 13 OF 1965

FEDERAL INDUSTRIAL DEVELOPMENT AUTHORITY
(INCORPORATION) ACT, 1965

An Act to incorporate the Federal Industrial Development Authority to be charged with responsibility for the promotion and co-ordination of industrial development in the Federation.

ENACTED by the Ruli Yang Maha Mulia Seri Paduka Baginda Yang di-Pertuan Agong with the advice and consent of the Dewan Negara and Dewan Rakyat in Parliament assembled, and by the authority of the same, as follows:

1. (1) This Act may be cited as the Federal Industrial Development Authority (Incorporation) Act, 1965, and shall come into operation on such date as the Minister may by notification in the Gazette appoint, such date not being earlier than the date on which the notification is published.

Short title,
commencement
and
application.

(2) This Act shall have effect throughout the Federation.

2. (1) There is hereby established a body corporate by the name of "The Federal Industrial Development Authority" (hereinafter referred to as "the Authority") with perpetual succession and a common seal, and power to acquire and hold movable or immovable property and dispose thereof or otherwise deal therewith.

Establishment
of the
Authority.

(2) The provisions of the Schedule to this Act shall have effect with respect to the Authority.

(3) The Authority shall consist of:

- (a) a Chairman;
- (b) a Deputy Chairman;
- (c) the Director of the Act - 58 -

- (d) a representative of the Treasury;
- (e) a representative of the Ministry of Commerce and Industry; and
- (f) ten other members of whom not more than seven shall represent commerce, manufacturing industries, industrial financing and industrial development.

APPENDIX IV

MALAYSIA

Act of Parliament

No. 13 OF 1965

FEDERAL INDUSTRIAL DEVELOPMENT AUTHORITY (INCORPORATION) ACT, 1965

An Act to incorporate the Federal Industrial Development Authority to be charged with responsibility for the promotion and co-ordination of industrial development in the Federation.

()

BE IT ENACTED by the Duli Yang Maha Mulia Seri Paduka Baginda Yang di-Pertuan Agong with the advice and consent of the Dewan Negara and Dewan Ra'ayat in Parliament assembled, and by the authority of the same, as follows:

1. (1) This Act may be cited as the Federal Industrial Development Authority (Incorporation) Act, 1965, and shall come into operation on such date as the Minister may by notification in the Gazette appoint, such date not being earlier than the date on which the notification is published.

Short title,
commencement
and
application.

(2) This Act shall have effect throughout the Federation.

Direction on
policy by the
Minister

2. (1) There is hereby established a body corporate by the name of "The Federal Industrial Development Authority" (hereinafter referred to as "the Authority") with perpetual succession and a common seal, and power to acquire and hold movable or immovable property and dispose thereof or otherwise deal therewith.

Establishment
of the
Authority.

(2) The provisions of the Schedule to this Act shall have effect with respect to the Authority.

(3) The Authority shall consist of:

- (a) a Chairman;
- (b) a Deputy Chairman;
- (c) the Director of the Authority;

- (d) a representative of the Treasury;
- (e) a representative of the Ministry of Commerce and Industry; and
- (f) ten other members of whom not more than seven shall represent institutions of commerce, manufacturing industries, industrial financing and industrial development.

(4) The members mentioned in sub-section (3), other than the Director of the Authority shall be appointed by the Minister.

(5) The Minister may appoint a person to be a temporary Chairman, Deputy Chairman or other member of the Authority during the temporary incapacity from illness, or during the temporary absence from the Federation, of the Chairman, Deputy Chairman or member, as the case may be.

(6) A member of the Authority, other than the Director of the Authority, shall, unless his appointment is sooner resigned or revoked, hold office for such term as may be specified in the instrument appointing him, and shall be eligible for re-appointment:

Provided that a member, other than the Chairman or Deputy Chairman shall not hold office for a term exceeding three years at any one time.

3. (1) The Chairman and the Deputy Chairman of the Authority shall be appointed upon such terms and conditions as the Minister may determine.

Salaries of Chairman and Deputy Chairman and fees and allowances of members.

(2) There shall be paid to the members of the Authority such fees and allowances as the Minister may determine.

4. The Minister may give to the Authority directions of a general nature, not inconsistent with the provisions of this Act as to the exercise of the functions of the Authority.

Direction on policy by the Minister

5. It shall be the functions of the Authority to promote and co-ordinate industrial development in the Federation, and to advise the Minister on the formulation of policies in respect thereof; and for that purpose, the Authority may -

Functions of the Authority.

- (a) undertake or cause to be undertaken economic feasibility studies of industrial possibilities.
- (b) undertake industrial promotion work (whether in the Federation or abroad);
- (c) facilitate exchange of information and co-

- (d) recommend policy on industrial site development and, where it deems fit, undertake the development of such sites;
- (e) evaluate applications for pioneer status;
- (f) report annually to the Minister on the progress and problems of industrialisation in the Federation and make recommendations on the manner in which such problems may be dealt with; and
- (g) generally do all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its functions under this Act.

6. (1) The expenses of the Authority up to such amount as may be authorised by the Minister for any one year shall be defrayed out of the funds of the Authority provided by Parliament.

(2) Before the beginning of September of each year the Authority shall submit to the Minister an estimate of the expenses (including those for development projects) for the following year in such form and with such particulars as the Minister may require; and the Minister shall before the beginning of November of that year notify the Authority of the amount authorised for expenses generally or of the amounts authorised for each description of expenditure.

(3) The Authority may at any time submit to the Minister a supplementary estimate for any one year and the Minister may allow the whole or any part of the additional expenditure included therein.

7. (1) The Authority shall keep proper accounts and other records in respect of its operation and shall prepare statements of accounts in respect of each financial year.

Accounts and
Audit.

(2) The accounts of the Authority shall be audited annually by the Auditor-General or other auditor appointed by the Authority with the approval of the Minister.

(3) After the end of each financial year, and as soon as the accounts of the Authority have been audited, the Authority shall cause a copy of the statement of accounts to be transmitted to the Minister, together with a copy of any observations made by the Auditor-General or other auditor appointed under sub-section (2) on any statement or on the accounts of the Authority.

(4) The Minister shall cause a copy of every such statement and observations to be laid on the table of each House of Parliament.

8. (1) The Authority shall not later than 31st day of March of year year, cause to be made and transmitted to the Minister a report dealing with the activities of the Authority during the preceding year and containing such information relating to the proceedings and policy of the Authority as the Minister may from time to time require. Annual Report

(2) The Minister shall cause a copy of every such report to be laid on the table of each House of Parliament.

9. (1) All members, officers and servants of the Authority shall be deemed to be public servants within the meaning of the Penal Code. Application of Penal Code and obligation of secrecy.

(2) Except for the purposes of this Act or of any criminal proceedings under this Act, no member, officer or servant of the Authority shall disclose any information with respect to any individual business, which has been obtained by him in the course of his duties and which is not published in pursuance of this Act; and a person contravening the provisions of this sub-section shall be guilty of an offence and shall be liable on conviction to imprisonment for a term not exceeding six months or to a fine not exceeding one thousand dollars or to both.

10. The Minister may make such regulations as he thinks necessary or expedient for the better carrying into effect of the purposes and provisions of this Act. Regulations.

11. In this Ordinance, unless the context otherwise requires - Interpretation.

"Authority" means the Federal Industrial Development Authority established under section 2;

"Director of the Authority" means the Director of the Authority appointed in accordance with the provisions of the Schedule to this Act;

"Minister" means the Minister charged with the responsibility for industrial development.

SCHEDULE

(Sections 2 (2) and 11)

1. (1) The following persons shall be disqualified from being appointed or being members of the Authority -

- (a) a person who is of unsound mind or is otherwise incapable of performing his duties;
- (b) a bankrupt;
- (c) a person who has been convicted of an offence and sentence to imprisonment for a term of not less than one year.

(2) A member of the Authority shall vacate his office if he fails to attend three consecutive meetings of the Authority without the permission in writing of the Minister or if he becomes disqualified under sub-paragraph (1).

2. (1) The quorum of the Authority shall be seven.

(2) If on any question to be determined by the Authority there is an equality of votes, the Chairman or other member acting as chairman shall have a casting vote.

(3) Subject to sub-paragraphs (1) and (2) the Authority shall determine its own procedure.

(4) The seal of the Authority shall be authenticated by the Chairman, or other member acting as chairman, and one other member of the Authority, and any document purporting to be sealed with the said seal, authenticated as aforesaid, shall until the contrary is shown be deemed to have been validly executed.

3. (1) The Authority -

- (a) shall, with the approval of the Minister, appoint an executive officer who shall be the Director of the Authority to perform such of the duties of the Authority as may be delegated to him;
- (b) may appoint such other officers and servants as may be necessary;

Provided that the appointment of the first Director of the Authority shall be made, and shall not be revoked except, by the Minister.

(2) The terms and conditions of service of officers and servants of the Authority shall require the approval of the Minister.

(3) The Authority may with the approval of the Minister make rules for the establishment and management of a contributory provident fund for the Director of the Authority and the officers and servants appointed under this paragraph, and for the payment of pensions, allowances or gratuities to the said Director, officers and servants on retirement or otherwise ceasing to hold office as such Director, officers or servants.

(4) A member of the Authority having any interest in any company or undertaking with which the Authority propose to make any contract or having any interest in any such contract or in any matter under discussion by the Authority shall disclose to the Authority the fact of his interest and the nature thereof, and such disclosure shall be recorded in the minutes of the Authority, and unless specifically authorised thereto by the Chairman, the member shall take no part in any deliberation or decision of the Authority relating to the contract.

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KUALA LUMPUR

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1. Straits Times
2. Malay Mail
3. Sunday Times
4. Sunday Mail